



**Metro**

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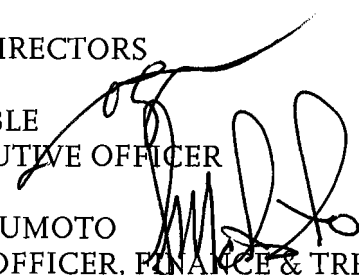
JUNE 10, 2005

TO: BOARD OF DIRECTORS

THROUGH: ROGER SNOBLE  
CHIEF EXECUTIVE OFFICER

FROM: TERRY MATSUMOTO  
EXECUTIVE OFFICER, FINANCE & TREASURER

SUBJECT: FULL FUNDING GRANT AGREEMENT BOND DOCUMENTS



ISSUE

At the June 2005 meeting, the Board will be requested to authorize the issuance of the Full Funding Grant Agreement Bonds. See item 22 for the June 16, 2005, Finance & Budget Committee. Documents containing the material terms of the bonds are attached to this report for review by Board members and their staff. Because the pledge of Federal grant receipts is new and the terms are unique to this bond issue, a new indenture was required. A term sheet is attached to summarize the key features of the transaction and indenture. The preliminary official statement is also attached for review.

Should you have questions about these documents, please call Terry Matsumoto at 213.922.2473.

ATTACHMENTS

- A. Indenture (Draft)
- B. Transaction Term Sheet (Draft)
- C. Preliminary Official Statement (Draft)

Prepared by: Michael J. Smith, Assistant Treasurer

TRUST INDENTURE

between

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY

and

THE BANK OF NEW YORK TRUST COMPANY, N.A.,

as Trustee

Dated as of \_\_\_\_\_ 1, 2005

SECURING  
LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY  
CAPITAL GRANT RECEIPTS REVENUE BONDS  
(GOLD LINE EASTSIDE EXTENSION PROJECT)

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THIS TRUST INDENTURE dated as of \_\_\_\_\_ 1, 2005 (the “Indenture”), by and between the LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY, a county transportation commission duly organized and existing pursuant to Chapter 2, Division 12 of the California Public Utilities Code (commencing with Section 130050.2 thereof) (the “MTA”), and THE BANK OF NEW YORK TRUST COMPANY, N.A., a national banking association duly organized, existing and authorized to accept and execute trusts of the character herein set out under and by virtue of the laws of the United States of America, as Trustee (the “Trustee”).

W I T N E S S E T H:

WHEREAS, the MTA has undertaken its “Metro Gold Line Eastside Extension Project” (the “Project”), consisting of the design and construction of a light rail transit line from Union Station in downtown Los Angeles to the East Los Angeles communities; and

WHEREAS, a portion of the costs of construction of the Project is being funded by grants received or expected to be received by the MTA under the terms of a Full Funding Grant Agreement with the United States of America, acting through the Department of Transportation, Federal Transit Administration; and

WHEREAS, a portion of the financing costs of the Project may be met by the MTA’s share of Section 5307 Urbanized Area Formula funds received or expected to be received by the MTA from the Federal Transit Administration; and

WHEREAS, Section 130500 et seq. of the California Public Utilities Code (the “Act”) provides that the MTA may issue bonds, which term include indebtedness and securities of any kind or class, including bonds, notes, bond anticipation notes, commercial paper and other obligations, and all of such obligations shall be special obligations of the MTA; and

WHEREAS, the MTA has determined to issue its Capital Grant Receipts Revenue Bonds (Gold Line Eastside Extension Project) (the “Bonds”) for the purpose of financing a portion of the costs of the Project and related financing costs in anticipation of the receipts of the grants to be received by the MTA from the federal government in aid of construction of the Project including certain moneys to be received under the terms of the Full Funding Grant Agreement and certain Section 5307 Urbanized Area Formula funds; and

WHEREAS, all things necessary to make the Bonds, when authenticated by the Trustee and issued as provided in this Indenture, the valid, binding and legal limited obligations of the MTA according to the import thereof, and to constitute this Indenture a valid pledge of and grant of a lien on the Grant Receipts (as defined herein) to secure the payment of the principal of, premium, if any, and interest on the Bonds have been done and performed, in due form and time, as required by law; and

WHEREAS, the execution and delivery of this Indenture and the execution and issuance of the Bonds, subject to the terms hereof, have in all respects been duly authorized;

## GRANTING CLAUSES

NOW, THEREFORE, THIS TRUST INDENTURE WITNESSETH:

That in order to provide for the payment of Project costs and to secure the payment of the principal of, premium, if any, and interest on all Bonds issued and to be issued hereunder, according to the import thereof, and the performance and observance of each and every covenant and condition herein and in the Bonds contained, and for and in consideration of the premises and of the acceptance by the Trustee of the trusts hereby created, and of the purchase and acceptance of the Bonds by the respective Owners (as hereinafter defined) thereof, and for other good and valuable consideration, the sufficiency of which is hereby acknowledged, and for the purpose of fixing and declaring the terms and conditions upon which the Bonds shall be issued, authenticated, delivered, secured and accepted by all persons who shall from time to time be or become Owners thereof, the MTA does hereby pledge and grant a lien upon the following Trust Estate to the Trustee and its successors in trust and assigns, to the extent provided in this Indenture:

- (a) The Grant Receipts;
- (b) All moneys and securities and earnings thereon in all Funds, Accounts and Sub-Accounts established pursuant to this Indenture (except the Rebate Fund); and
- (c) Any and all other moneys and securities furnished from time to time to the Trustee by the MTA or on behalf of the MTA or by any other persons to be held by the Trustee under the terms of this Indenture.

BUT IN TRUST NEVERTHELESS, for the equal and proportionate benefit and security of the Bonds issued and to be issued hereunder and secured by this Indenture, including any Bonds hereafter issued, without preference, priority or distinction as to participation in the lien, benefit and protection hereof of any one Bond over any other or from the others by reason of priority in the issue or negotiation thereof or by reason of the date or dates of maturity thereof, or for any other reason whatsoever (except as expressly provided in this Indenture), so that each and all of such Bonds shall have the same right, lien and privilege under this Indenture and shall be equally secured hereby, with the same effect as if the same had all been made, issued and negotiated upon the delivery hereof (all except as expressly provided in this Indenture, as aforesaid).

PROVIDED, HOWEVER, that these presents are upon the condition that, if the MTA, or its successors, shall well and truly pay or cause to be paid, or provide for the payment of all principal of, premium, if any, and interest on the Bonds due or to become due thereon, at the times and in the manner stipulated therein and herein, then this Indenture and the rights hereby granted shall cease, terminate and be void, but shall otherwise be and remain in full force.

AND IT IS HEREBY COVENANTED AND AGREED by and among the MTA, the Trustee and the Owners from time to time of the Bonds, that the terms and conditions upon which the Bonds are to be issued, authenticated, delivered, secured and accepted by all persons who shall from time to time be or become the Owners thereof, and the trusts and conditions upon



which the moneys and securities hereby pledged are to be held and disposed of, which trusts and conditions the Trustee hereby accepts, are as follows:

## ARTICLE I

### DEFINITIONS AND CONSTRUCTION

**Section 101. Definitions.** The following terms shall, for all purposes of this Indenture, have the following meanings unless a different meaning clearly appears from the context:

“*Accountant*” means an independent certified public accountant or a firm of independent certified public accountants (who may be the accountants who regularly audit the books and accounts of the MTA) who are selected and paid by the MTA.

“*Accreted Amount*” means, with respect to any Capital Appreciation Bonds, the amount set forth in the Supplemental Indenture authorizing such Bonds as the amount representing the initial public offering price thereof, plus the amount of interest that has accreted on such Bonds, compounded periodically, to the date of calculation, determined by reference to accretion tables contained in each such Bond or contained or referred to in any Supplemental Indenture authorizing the issuance of such Bonds. The Accreted Amounts for such Bonds as of any date not stated in such tables shall be calculated by adding to the Accreted Amount for such Bonds as of the date stated in such tables immediately preceding the date of computation a portion of the difference between the Accreted Amount for such preceding date and the Accreted Amount for such Bonds as of the date shown on such tables immediately succeeding the date of calculation, apportioned on the assumption that interest accretes during any period in equal daily amounts on the basis of a 360-day year consisting of twelve 30-day months.

“*Act*” means the Los Angeles County Transportation Commission Revenue Bond Act, Sections 130500 et seq. of the California Public Utilities Code, as amended from time to time.

“*Additional Bonds*” means Bonds authenticated and delivered on original issuance pursuant to Section 204.

“*All-Hold Rate*” means, on any date of determination, the interest rate per annum equal to 65% of the Index on such date; provided, that in no event shall the All-Hold Rate be more than the Maximum Lawful Rate.

“*Annual Debt Service Requirement*” means, with respect to any Bond Year, the aggregate of the Interest Requirement and the Principal Requirement for such Bond Year.

“*Applicable ARS Rate*” means, with respect to ARS, the rate per annum at which interest accrues on the ARS for any Auction Period.

“*ARS*” means, on any date, either or both of the Series 2005B-1 Bonds and the Series 2005B-2 Bonds.

“*ARS Beneficial Owner*” means the Person who is the beneficial owner of ARS according to the records of (i) DTC or its participants while such ARS are in book-entry form or (ii) the Trustee while such ARS are not in book-entry form.

“*ARS Defaulted Interest*” means interest on any ARS which is payable but is not punctually paid or duly provided for on any ARS Interest Payment Date.

“*ARS Interest Payment Date*” means, when used with respect to ARS in an Auction Period other than a Special Auction Period, the Business Day immediately following each Auction Period, and, when used with respect to a Special Auction Period of seven days or more but fewer than 183 days, the Business Day immediately following such Special Auction Period, and, when used with respect to a Special Auction Period of 183 days or more, each April 1 and October 1 and on the Business Day immediately following such Special Auction Period.

“*ARS Interest Period*” means the period commencing on and including an ARS Interest Payment Date and ending on but excluding the next succeeding ARS Interest Payment Date; provided, that the first ARS Interest Period within each ARS Interest Rate Period shall commence on and include the Closing Date or the Conversion Date, as the case may be.

“*ARS Interest Rate Period*” means each period during which the Series 2005B-1 Bonds or the Series 2005B-2 Bonds are ARS.

“*ARS Maximum Rate*” means [12]% per annum; provided that in no event shall the ARS Maximum Rate be more than the Maximum Lawful Rate.

“*ARS Payment Default*” means (i) a default by the MTA and the Bond Insurer in the due and punctual payment of any installment of interest on ARS or (ii) a default by the MTA and the Bond Insurer in the due and punctual payment of any principal of ARS at stated maturity or pursuant to a mandatory redemption.

“*ARS Rating Agency*” means Moody’s, Fitch or S&P, or if any of Moody’s, Fitch or S&P discontinues its securities rating service, then such other nationally recognized securities rating agency as may be specified by the Broker-Dealer with the consent of the MTA.

“*Auction*” means the implementation of the Auction Procedures on an Auction Date.

“*Auction Agent*” means the Initial Auction Agent unless and until a Substitute Auction Agent Agreement becomes effective, after which “*Auction Agent*” shall include both the Initial Auction Agent (if it is continuing to act in such capacity under this Indenture) and each such Substitute Auction Agent so acting.

“*Auction Agent Agreement*” means, on any date, each Initial Auction Agent Agreement and each Substitute Auction Agent Agreement, in each case as from time to time in effect.

“*Auction Agent Fee*” has the meaning provided in each Auction Agent Agreement.

“*Auction Date*” means, with respect to ARS, the Business Day next preceding the first day of each Auction Period, other than

(i) each Auction Period commencing after the ownership of such ARS is no longer maintained in book-entry form by a Securities Depository;

(ii) each Auction Period commencing after the occurrence and during the continuance of an ARS Payment Default; or

(iii) any Auction Period commencing less than two Business Days after the cure or waiver of an ARS Payment Default.

The Auction Date determined as provided in this definition may be adjusted as provided in Section 1309(B).

*“Auction Period”* means (i) with respect to ARS in a seven-day mode, any of (A) a period, generally of seven days, beginning on and including a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on and including the Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case ending on and including the next succeeding day which is followed by a Business Day), (B) a period, generally of seven days, beginning on and including a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on and including the Monday thereafter (unless such Monday is not followed by a Business Day, in which case ending on and including the next succeeding day which is followed by a Business Day), (C) a period, generally of seven days, beginning on and including a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on and including the Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case ending on and including the next succeeding day which is followed by a Business Day), (D) a period, generally of seven days, beginning on and including a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on and including the Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case ending on and including the next succeeding day which is followed by a Business Day) or (E) a period, generally of seven days, beginning on and including a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Thursday) and ending on and including the Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case ending on and including the next succeeding day which is followed by a Business Day); (ii) with respect to ARS in a 28-day mode, any of (A) a period, generally of 28 days, beginning on and including a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on and including the fourth Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case ending on and including the next succeeding day which is followed by a Business Day), (B) a period, generally of 28 days, beginning on and including a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on and including the fourth Monday thereafter (unless such Monday is not followed by a Business Day, in which case ending on and including the next succeeding day followed by a Business Day), (C) a period, generally of 28 days, beginning on and including a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on and including the fourth Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case ending on and including

the next succeeding day followed by a Business Day), (D) a period, generally of 28 days, beginning on and including a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on and including the fourth Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case ending on and including the next succeeding day followed by a Business Day) or (E) a period, generally of 28 days, beginning on and including a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Thursday) and ending on and including the fourth Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case ending on and including the next succeeding day which is followed by a Business Day); (iii) with respect to ARS in a 35-day mode, any of (A) a period, generally of 35 days, beginning on and including a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on and including the fifth Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case ending on and including the next succeeding day which is followed by a Business Day), (B) a period, generally of 35 days, beginning on and including a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on and including the fifth Monday thereafter (unless such Monday is not followed by a Business Day, in which case ending on and including the next succeeding day followed by a Business Day), (C) a period, generally of 35 days, beginning on and including a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on and including the fifth Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case ending on and including the next succeeding day followed by a Business Day), (D) a period, generally of 35 days, beginning on and including a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on and including the fifth Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case ending on and including the next succeeding day followed by a Business Day) or (E) a period, generally of 35 days, beginning on and including a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Thursday) and ending on and including the fifth Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case ending on and including the next succeeding day which is followed by a Business Day) and (iv) a Special Auction Period; provided, however, that the initial Auction Period with respect to the Series 2005B Bonds shall begin on and include the Closing Date, and that in the event of a Conversion of the ARS from one ARS Interest Rate Period to another ARS Interest Rate Period the initial Auction Period following such Conversion shall begin on and include the Conversion Date.

“*Auction Procedures*” means the provisions set forth in Section 2 of the Auction and Settlement Procedures set forth in Exhibit B to the Auction Agent Agreement.

“*Auction Rate*” means, with respect to the interest rate on ARS, the rate of interest per annum that results from implementation of the Auction Procedures, and determined as described in Section 2(c)(ii) of the Auction Procedures; provided, however, that the Auction Rate shall not exceed the ARS Maximum Rate. While Auction Procedures are suspended, the Auction Rate will be determined as otherwise described herein.

“*Authorized Denominations*” means (a) with respect to Series 2005A Bonds, \$5,000 or any integral multiple thereof, (b) with respect to the Series 2005B Bonds, \$25,000 or any integral multiple thereof, or, (c) in the case of Additional Bonds, such other denominations as may be specified in the Supplemental Indenture authorizing the issuance thereof.

“*Authorized Officer*” means the Chair, any Vice Chair, the Chief Executive Officer, the Deputy Chief Executive Officer, the Chief Financial Officer or the Executive Officer, Finance and Treasurer of the MTA and any other officer or employee of the MTA authorized to perform specific acts or duties hereunder by ordinance duly adopted by the MTA.

“*Average Annual Debt Service Requirement*” means, as of any date of calculation, the mathematical mean of the Annual Debt Service Requirements for all Outstanding Bonds.

“*Bid*” has the meaning provided in Section 2(a)(i) of the Auction Procedures.

“*Board*” means the governing board of the MTA.

“*Bond*” or “*Bonds*” means any bond or bonds, including the Series 2005A Bonds, the Series 2005B-1 Bonds, the Series 2005B-2 Bonds and any Additional Bonds, authenticated and delivered under and pursuant to this Indenture, other than Subordinated Indebtedness.

“*Bond Counsel*” means Fulbright & Jaworski L.L.P. or any other attorney at law or firm of attorneys selected by the MTA and reasonably acceptable to the Trustee and the Bond Insurer of nationally recognized standing in matters pertaining to the validity of and the tax-exempt nature of interest on bonds issued by states and their political subdivisions, duly admitted to the practice of law before the highest court of any state of the United States of America.

“*Bond Insurance Policy*” means the municipal bond insurance policy insuring and guaranteeing the payment of the principal of and interest on the Bonds.

“*Bond Insurer*” means \_\_\_\_\_.

“*Bond Resolution*” means the resolution adopted by the Board on \_\_\_\_\_, 2005 authorizing the issuance of the Bonds.

“*Bond Year*” means the 12-month period commencing on October 2 of each year, and ending on October 1 of the next succeeding year.

“*Broker-Dealer*” means Citigroup Global Markets Inc., Goldman, Sachs & Co. or any other broker or dealer (each as defined in the Securities Exchange Act of 1934), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth in the Auction Procedures which (i) is a participant in or member of the DTC as determined by the rules or bylaws of the DTC (or an affiliate of such a participant or member), (ii) has been approved by the Bond Insurer, which approval shall not be unreasonably withheld, (iii) has been appointed as such by the MTA pursuant to Section 1306 of this Indenture, and (iv) has entered into a Broker-Dealer Agreement that is in effect on the date of reference. When used herein at a time when more than one Broker-Dealer is acting under this Indenture, the term “the Broker-

Dealer” shall mean, as the context dictates, either all such Broker-Dealers collectively or only each Broker-Dealer acting with respect to the ARS.

“*Broker-Dealer Agreement*” means each agreement among the MTA, the Auction Agent and a Broker-Dealer pursuant to which the Broker-Dealer agrees to participate in Auctions as set forth in the Auction Procedures, as from time to time amended or supplemented with the consent of the Bond Insurer. Each Broker-Dealer Agreement shall be substantially in the form of the Broker-Dealer Agreements dated as of \_\_\_\_\_ 1, 2005 among the MTA, the Initial Auction Agent and each of Citigroup Global Markets Inc. and Goldman, Sachs & Co.

“*Business Day*” means any day which is not a Saturday, a Sunday, a legal holiday or a day on which banking institutions in the city where the principal corporate trust office of any Fiduciary is located are authorized or required by law or executive order to close (and such Fiduciary is in fact closed).

“*Capital Appreciation and Income Bond*” means any Bond as to which accruing interest is not paid prior to the Interest Commencement Date specified therefor and is compounded periodically on certain designated dates prior to the Interest Commencement Date specified therefor, all as provided in the Supplemental Indenture authorizing the issuance of such Capital Appreciation and Income Bond.

“*Capital Appreciation Bond*” means any Bond the interest on which (i) shall be compounded periodically on certain designated dates, (ii) shall be payable only at maturity or redemption prior to maturity and (iii) shall be determined by subtracting from the Accreted Amount the initial public offering price thereof, all as provided in the Supplemental Indenture authorizing the issuance of such Capital Appreciation Bond. The term “Capital Appreciation Bond” as used throughout this Indenture also includes any Capital Appreciation and Income Bond prior to the Interest Commencement Date specified therefor.

“*Closing Date*” means \_\_\_\_\_, 2005.

“*Code*” or “*Code and Regulations*” means the Internal Revenue Code of 1986, and the regulations promulgated or proposed pursuant thereto as the same may be in effect from time to time.

<u>Bond Year</u> <u>Ending October 1</u>	<u>Construction</u> <u>Deposit Amount</u>
2006	\$
2007	
2008	
2009	
2010	

“*Construction Fund*” means the Construction Fund established in Section 502.

“*Conversion*” means a conversion of the ARS from one ARS Interest Rate Period to another ARS Interest Rate Period as provided in Section 1310 of this Indenture.

“*Conversion Date*” means the effective date of a Conversion of the ARS.

“*Cost of Construction*” means with respect to the Project, the cost of acquisition, construction and equipping thereof, including the cost of acquisition of all land, rights of way, property, rights, easements and interests, acquired by the MTA for such construction, the cost of all machinery and equipment, financing charges, financial advisory fees, interest prior to and during construction and for such period after completion of construction as the MTA shall determine, the cost of engineering and legal expenses, plans, specifications, surveys, estimates of cost and revenues, other expenses necessary or incident to determining the feasibility or practicability of constructing the Project, administrative expenses and such other costs, expenses and funding as may be necessary or incident to the construction, the financing of such construction and the placing of the Project in service.

“*Counsel’s Opinion*” means an opinion signed by an attorney or firm of attorneys of recognized standing in the area of law to which the opinion relates, who may be counsel to the MTA (including the Los Angeles County Counsel acting as general counsel to the MTA).

“*Credit Bank*” means, as to any particular Series of Bonds, the person (other than a Bond Insurer) providing a Credit Facility, as may be provided in the Supplemental Indenture authorizing such Series.

“*Credit Facility*” means, as to any particular Series of Bonds, a letter of credit, a line of credit, a guaranty, a standby bond purchase agreement or other credit or liquidity enhancement facility, other than a Bond Insurance Policy, as may be provided in the Supplemental Indenture authorizing such Series.

“*Current Funds*” means moneys which are immediately available in the hands of the payee at the place of payment.

“*Current Interest Bond*” means any Bond the interest on which is payable on the Interest Payment Dates provided therefor in the Supplemental Indenture authorizing such Bond. The term “Current Interest Bond” as used throughout this Indenture also includes any Capital Appreciation and Income Bond from and after the Interest Commencement Date specified therefor.

“*DTC*” means The Depository Trust Company, as securities depository for the 2005 Bonds.

“*DTC Participant*” shall mean any securities broker or dealer, bank, trust company, clearing corporation or other organization depositing 2005 Bonds with DTC pursuant to the book-entry only system described in Section 203.

“*Debt Reserve Credit Facility*” shall have the meaning assigned to such term in Section 506(D)(1).

“*Debt Service Fund*” means the Debt Service Fund established in Section 502.

*“Debt Service Reserve Fund”* means the Debt Service Reserve Fund established in Section 502.

*“Debt Service Reserve Requirement”* means, with respect to the Bonds Outstanding at any time, an amount equal to the least of (i) the Maximum Annual Debt Service Requirement, (ii) 125 percent of the Average Annual Debt Service Requirement and (iii) \$\_\_\_\_\_, being ten percent of the original principal amount of the 2005 Bonds.

*“Defeasance Obligations”* means Government Obligations which are not subject to redemption other than at the option of the holder thereof.

*“Depositary”* means any bank, national banking association or trust company having capital stock, surplus and retained earnings aggregating at least \$10,000,000, selected by an Authorized Officer as a depositary of moneys and securities held under the provisions of this Indenture, and may include the Trustee.

*“Event of Default”* means any event so designated and specified in Section 801.

*“Existing Holder”* means, with respect to any Auction, a Person who is the Beneficial Owner of ARS at the close of business on the Business Day immediately preceding such Auction; provided, however, that for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as an Existing Holder.

*“Favorable Opinion of Bond Counsel”* means, with respect to any action relating to the Bonds, the occurrence of which requires such an opinion, a written legal opinion of Bond Counsel addressed to the Trustee, the Bond Insurer and the Broker-Dealers, as applicable, to the effect that such action is permitted under this Indenture and will not impair the exclusion of interest on the Bonds from gross income for purposes of federal income taxation or the exemption of interest on the Bonds from personal income taxation under the laws of the State (subject to customary exceptions).

*“Fiduciary”* or *“Fiduciaries”* means the Trustee, the Registrar, the Paying Agents and any Depositary, or any or all of them, as may be appropriate.

*“Fiscal Year”* means the period July 1 through June 30 of the following year.

*“FTA”* means the Federal Transit Administration of the United States Department of Transportation of the United States of America.

*“Full Funding Grant Agreement”* means the grant agreement (including attachments) by and between the FTA, as grantor, and the MTA, as grantee, with respect to the Project designated as “Full Funding Grant Agreement – CA-03-0508-05, CA-90-Y056-01 & CA-03-0661-00” and providing FTA Section 5309 (49 United States Code Section 5309) New Starts funds as grants in aid of the design and construction of the Project.

*“Full Funding Grant Receipts”* means any amount received by the MTA from Section 5309 (49 United States Code Section 5309) New Starts funds pursuant to the Full Funding Grant Agreement.



“*Full Funding Grant Receipts Construction Fund*” means the Full Funding Grant Receipts Construction Fund established in Section 502.

“*Government Obligations*” means any direct obligations of the United States of America.

“*Grant Receipts*” means, collectively, the Full Funding Grant Receipts and the Section 5307 Grant Receipts.

“*Hold Order*” has the meaning provided in Section 2(a)(i) of the Auction Procedures.

“*Indenture*” means this Trust Indenture, dated as of \_\_\_\_\_ 1, 2005, by and between the MTA and the Trustee, as from time to time amended and supplemented.

“*Index*” means, on any Auction Date with respect to the ARS in any Auction Period of 35 days or less, the One Month LIBOR Rate on such date and, with respect to ARS in any Auction Period of more than 35 days, the yield on United States Treasury securities on the date the Auction Period began which has a maturity which most closely matches the last day of the Auction Period. If such rate is unavailable, the Index for the ARS means an index or rate agreed to by all Broker-Dealers and the Bond Insurer. If for any reason on any Auction Date the Index shall not be determined as provided above, the Index shall mean the Index for the Auction Period ending on such Auction Date.

“*Initial Auction Agent*” means \_\_\_\_\_, its successors and assigns.

“*Initial Auction Agent Agreement*” means the Auction Agent Agreement dated as of \_\_\_\_\_ 1, 2005 between the Trustee and the Initial Auction Agent, relating to the ARS, including any amendment thereof or supplement thereto.

“*Insured Bond*” means any Bond with respect to which the payment of principal and interest is guaranteed under a Bond Insurance Policy.

“*Interest Account*” means the account of that name in the Debt Service Fund established in Section 502.

“*Interest Commencement Date*” means, with respect to any Capital Appreciation and Income Bond, the date specified in the Supplemental Indenture authorizing the issuance of such Bond (which date must be prior to the maturity date for such Capital Appreciation and Income Bond) after which interest accruing on such Capital Appreciation and Income Bond shall be payable periodically, with the first such payment date being the applicable Interest Payment Date immediately succeeding such Interest Commencement Date.

“*Interest Payment Date*” means (a) with respect to Bonds other than ARS, April 1 and October 1 of each year, and (b) with respect to Bonds that are ARS, each ARS Interest Payment Date.

“*Interest Period*” means (a) with respect to Bonds other than ARS, the period from the date of the Bonds of any Series to and including the day immediately preceding the first Interest Payment Date and thereafter shall mean each period from and including an Interest Payment

Date to and including the day immediately preceding the next Interest Payment Date, and (b) with respect to the Bonds that are ARS, each ARS Interest Rate Period.

“*Interest Requirement*” for any Fiscal Year, Bond Year or Interest Period, as the context may require, as applied to Bonds of any Series then Outstanding, shall mean the total of the sums that would be deemed to accrue on such Bonds during such Bond Year or Interest Period if the interest on the Current Interest Bonds of such Series were deemed to accrue daily during such year or Interest Period in equal amounts and if the interest on the ARS of such Series were deemed to accrue daily during such year or Interest Period at a rate per annum equal to the [BMA Index], and employing the methods of calculation set forth in Section 205(A) in the case of a Qualified Swap or Cap Agreement; *provided, however*, that interest expense shall be excluded from the determination of Interest Requirement to the extent that such interest is to be paid from the moneys in the 2005 Capitalized Interest Account allocable to the payment of such interest as provided in Section 507 with respect to the 2005 Bonds or as provided in the Supplemental Indenture authorizing the issuance of a Series of Additional Bonds or other available moneys or from investment (but not reinvestment) earnings thereon if such proceeds shall have been invested in Investment Securities and to the extent such earnings may be determined precisely. Unless the MTA shall otherwise provide in a Supplemental Indenture, interest expense on Credit Facilities drawn upon to purchase but not to retire Bonds, except to the extent such interest exceeds the interest otherwise payable on such Bonds, shall not be included in the determination of Interest Requirement. If interest is not payable at a single numerical rate for the entire term of such Bonds, then “*Interest Requirement*” shall have the appropriate meaning assigned thereto by the Supplemental Indenture authorizing such Bonds.

“*Investment Securities*” means any of the following securities or investments authorized by law as permitted investments of MTA funds at the time of purchase thereof:

- (i) Government Obligations;
- (ii) obligations of any of the following federal agencies, which obligations are fully guaranteed by the full faith and credit of the United States of America:
  - Export Import Bank
  - Rural Economic Community Development Administration
  - U.S. Maritime Administration
  - Small Business Administration
  - U.S. Department of Housing & Urban Development (PHAs)
  - Federal Housing Administration
  - Federal Financing Bank
- (iii) direct obligations of any of the following federal agencies, which obligations are not fully guaranteed by the full faith and credit of the United States of America:
  - senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC)

- Export Import Bank
- obligations of the Resolution Funding Corporation (REFCORP)
- senior debt obligations of the Federal Home Loan Bank System
- senior debt obligations of other government sponsored agencies approved by Bond Insurer

(iv) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's Investors Service and "A-1" or "A-1+" by Standard & Poor's and maturing not more than 360 calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);

(v) commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's Investors Service and "A-1+" by Standard & Poor's and which matures not more than 270 calendar days after the date of purchase;

(vi) investments in a money market fund rated "AAAm" or "AAAm G" or better by Standard & Poor's and rated "Aaa" by Moody's Investors Service;

(vii) pre refunded municipal obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Moody's Investors Service and Standard & Poor's or any successors thereto; or (B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or Defeasance Obligations, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (vii) on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(viii) municipal obligations rated "Aaa/AAA" or general obligations of states with a rating of "A2/A" or higher by both Moody's Investors Service and Standard & Poor's;

(ix) investment agreements approved in writing by the Bond Insurer (supported by appropriate opinions of counsel); and

(x) other forms of investments (including repurchase agreements) approved in writing by the Bond Insurer.

“*Letter of Representations*” means the Blanket Issuer Letter of Representations dated April 19, 1995, between the MTA and DTC, as the same may from time to time be supplemented and amended.

“*Maximum Annual Debt Service Requirement*” means, as of any date of calculation, the largest Annual Debt Service Requirement occurring in the then current and any succeeding Bond Year.

“*Maximum Lawful Rate*” means the maximum rate of interest on the relevant obligation permitted by applicable law.

“*MTA*” means the Los Angeles County Metropolitan Transportation Authority, duly organized and existing under the Act.

“*Notice of ARS Payment Default*” means a notice substantially in the form of Exhibit E to the Auction Agent Agreement.

“*Notice of Cure of ARS Payment Default*” means a notice substantially in the form of Exhibit [F] to the Auction Agent Agreement.

“*One Month LIBOR Rate*” means, as of any date of determination, the offered rate (rounded up to the next highest 0.001%) for deposits in U.S. dollars for a one-month period which appears on the Telerate Page 3750 at approximately 11:00 a.m., London time, on such date, or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market, then on the next preceding day on which such dealings were transacted in such market.

“*Order*” has the meaning provided in Section 2(a)(i) of the Auction Procedures.

“*Outstanding*,” when used with reference to Bonds, means, as of any date, all Bonds theretofore or thereupon being authenticated and delivered under this Indenture except:

- (i) Any Bonds canceled by the Trustee at or prior to such date;
- (ii) Bonds (or portions of Bonds) for the payment or redemption of which moneys and/or Defeasance Obligations, equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or date fixed for redemption, are held in trust under this Indenture and set aside for such payment or redemption (whether at or prior to the maturity or redemption date), provided that if such Bonds (or portions of Bonds) are to be redeemed, notice of such redemption shall have been given as in Article IV provided or provision satisfactory to the Trustee shall have been made for the giving of such notice;
- (iii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to Article III, Section 406 or Section 1106; and
- (iv) Bonds deemed to have been paid as provided in Section 1201(B).

“*Owner*” means any person who shall be the registered owner of any Bond or Bonds.

“*Paying Agent*” means any bank, national banking association or trust company designated by ordinance of the Board or by an Authorized Officer as paying agent for the Bonds of any Series, and any successor or successors appointed by an Authorized Officer under this Indenture.

“*Payment Date*” shall mean any Interest Payment Date or Principal Payment Date.

“*Person*” means and includes an association, unincorporated organization, a corporation, a partnership, a limited liability corporation, a joint venture, a business trust, or a government or an agency or a political subdivision thereof, or any other public or private entity, or a natural person.

“*Principal*” or “*principal*” means (i) with respect to any Capital Appreciation Bond, the Accreted Amount thereof (the difference between the stated amount to be paid at maturity and the Accreted Amount being deemed unearned interest) except as used in this Indenture in connection with the authorization and issuance of Bonds and with the order of priority of payments of Bonds after an event of default, in which case “*principal*” means the initial public offering price of a Capital Appreciation Bond (the difference between the Accreted Amount and the initial public offering price being deemed interest) but when used in connection with determining whether the Owners of the requisite principal amount of Bonds then Outstanding have given any request, demand, authorization, direction, notice, consent or waiver or with respect to the Redemption Price of any Capital Appreciation Bond, “*principal amount*” means the Accreted Amount and (ii) with respect to the principal amount of any Current Interest Bond, the principal amount of such Bond payable in satisfaction of a Sinking Fund Installment, if applicable, or at maturity.

“*Principal Account*” means the account of that name in the Debt Service Fund established in Section 502.

“*Principal Payment Date*” means an October 1 upon which the principal of any Bond is stated to mature or upon which the principal of any Term Bond is subject to redemption in satisfaction of a Sinking Fund Installment.

“*Principal Requirement*” for any Fiscal Year, as applied to the Bonds of any Series, means an amount equal to the principal scheduled to become due on such Bonds during such Fiscal Year; *provided, however*, that an amount of principal shall be excluded from the determination of Principal Requirement to the extent that such amount is to be paid from the proceeds of Bonds allocable to the payment of such principal as provided in the Supplemental Indenture authorizing the issuance of such Bonds or other available moneys or from the investment (but not reinvestment) earnings thereon if such proceeds or other moneys shall have been invested in Investment Securities and to the extent such earnings may be determined precisely.

“*Project*” means the construction of the Gold Line Eastside Extension Project as more particularly described in the Full Funding Grant Agreement and the plans and specifications therefor on file with the MTA, as the same may be revised from time to time to the MTA.

*“Qualified Swap or Cap Agreement”* means \_\_\_\_\_ and any agreement between the MTA and a Swap or Cap Provider under which (i) the MTA agrees to pay the Swap or Cap Provider an amount calculated at an agreed-upon rate or index based upon a notional amount and the Swap or Cap Provider agrees to pay the MTA for a specified period of time an amount calculated at an agreed-upon rate or index based upon such notional amount, or (ii) for an initial payment made by the MTA to the Swap or Cap Provider, the Swap or Cap Provider agrees to pay the MTA for each period that an agreed-upon index exceeds a specified threshold an amount calculated at the difference between such agreed-upon index and such specified threshold based upon a notional amount, in each case provided that (a) each Rating Service (if such Rating Service also rates the unsecured obligations of the Swap or Cap Provider or its guarantor) has assigned to the unsecured obligations of the Swap or Cap Provider, or of the person who guarantees the obligation of the Swap or Cap Provider to make its payments to the MTA, as of the date the swap agreement is entered into, a rating that is equal to or higher than “AA-/Aa3”, and (b) the MTA has notified each Rating Service (whether or not such Rating Service also rates the unsecured obligations of the Swap or Cap Provider or its guarantor) in writing at least 15 days prior to executing and delivering the agreement of its intention to enter into the agreement and has received from such Rating Service a written indication that the entering into of the agreement by the MTA will not in and of itself cause a reduction or withdrawal by such Rating Service of its rating on the Bonds.

*“Rating Services”* means each and every one of the nationally recognized rating services that shall have assigned ratings to any Bonds Outstanding as requested by or on behalf of the MTA, and which ratings are then currently in effect.

*“Rebate Fund”* means the Rebate Fund established in Section 502.

*“Record Date”* means (a) with respect to the 2005 Bonds other than ARS, the fifteenth (15th) day (whether or not a Business Day) of the calendar month next preceding each Interest Payment Date and, with respect to any other Series of Bonds, such other day as may be determined in the applicable Supplemental Indenture and (b) with respect to any ARS, the second Business Day next preceding each ARS Interest Payment Date.

*“Redemption Account”* means the account of that name in the Debt Service Fund established in Section 502.

*“Redemption Price”* means, with respect to any Bond, the Principal thereof plus the applicable premium, if any, payable upon the date fixed for redemption.

*“Registrar”* means any bank, national banking association or trust company appointed by an Authorized Officer under this Indenture and designated as registrar for the Bonds of any Series, and its successor or successors.

*“Section 5307 Grant Receipts”* means all amounts received by the MTA from its share of FTA Section 5307 (49 United States Code Section 5307) Urbanized Area Formula funds.

*“Sell Order”* has the meaning provided in Section 2(a)(i) of the Auction Procedures.

“*Serial Bonds*” means the Bonds of a Series which shall be stated to mature in annual installments.

“*Series*” means all of the Bonds designated as a series and authenticated and delivered on original issuance in a simultaneous transaction, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to Article III or Sections 406 or 1106.

“*Series 2005A Bonds*” means the \$\_\_\_\_\_ original principal amount of the Capital Grant Receipts Revenue Bonds, Series 2005A (Gold Line Eastside Extension Project), of the MTA authorized by the Bond Resolution and Section 203(A).

“*Series 2005B Bonds*” means, collectively, the Series 2005B-1 Bonds and the Series 2005B-2 Bonds.

“*Series 2005B-1 Bonds*” means the \$\_\_\_\_\_ original principal amount of Capital Grant Receipts Revenue Bonds, Series 2005B-1 (Gold Line Eastside Extension Project), of the MTA authorized by the Bond Resolution and Section 203(B).

“*Series 2005B-2 Bonds*” means the \$\_\_\_\_\_ original principal amount of Capital Grant Receipts Revenue Bonds, Series 2005B-2 (Gold Line Eastside Extension Project), of the MTA authorized by the Bond Resolution and Section 203(C).

“*Sinking Fund Installment*” means with respect to any Series of Additional Bonds, each principal amount of Bonds scheduled to be redeemed through sinking fund redemption provisions by the application of amounts on deposit in the Principal Account, established pursuant to Section 202(A)(3)(h).

“*SLG’s*” means United States Treasury Certificates of Indebtedness, Notes and Bonds State and Local Government Series.

“*Special Auction Period*” means, with respect to ARS, (a) any period of less than 183 days which is not another Auction Period and which is divisible by seven and which begins on an Interest Payment Date and ends (i) in the case of ARS with Auctions generally conducted on Fridays, on a Sunday unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (ii) in the case of ARS with Auctions generally conducted on Mondays, on a Monday unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iii) in the case of ARS with Auctions generally conducted on Tuesdays, on a Tuesday unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iv) in the case of ARS with Auctions generally conducted on Wednesdays, on a Wednesday unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, and (v) in the case of ARS with Auctions generally conducted on Thursdays, on a Thursday unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day or (b) any period which is 183 days or longer which begins on an Interest Payment Date and ends not later than the day prior to the final scheduled maturity date of ARS.

“*Special Record Date*” means a special date fixed to determine the names and addresses of Holders of ARS for purposes of paying interest on a special interest payment date for the payment of defaulted interest, all as further provided in Section 1301(F)(ii) hereof.

“*Submitted Hold Orders*” has the meaning provided in Section 2(c)(i) of the Auction Procedures.

“*Subordinated Indebtedness*” means indebtedness permitted to be issued pursuant to Section 511.

“*Substitute Auction Agent*” means the Person with whom the Trustee enters into a Substitute Auction Agent Agreement.

“*Substitute Auction Agent Agreement*” means an auction agent agreement acceptable to the Insurer containing terms substantially similar to the terms of the Initial Auction Agent Agreement whereby a Person having the qualifications required by Section 1306 of this Indenture agrees with the Trustee to perform the duties of the Auction Agent herein with respect to the ARS.

“*Sufficient Clearing Bids*” has the meaning provided in Section 2(c)(i) of the Auction Procedures.

“*Supplemental Indenture*” means any Supplemental Indenture authorized pursuant to Article X.

“*Swap or Cap Provider*” means any counterparty with whom the MTA enters into a Qualified Swap or Cap Agreement.

“*Term Bonds*” means the Bonds of a Series other than Serial Bonds which shall be stated to mature on one or more dates through the payment of Sinking Fund Installments.

“*Trustee*” means The Bank of New York Trust Company, N.A., and any successor or successors appointed under this Indenture as hereinafter provided.

“*Trust Estate*” means the Grant Receipts and all other property pledged to the Trustee pursuant to this Indenture.

“*2005 Bonds*” means, collectively, the Series 2005A Bonds and the Series 2005B Bonds.

“*2005 Capitalized Interest Account*” means the account of that name in the Construction Fund established in Section 502.

“*Winning Bid Rate*” has the meaning provided in Section 2(c)(i)(C) of the Auction Procedures.

**Section 102. Miscellaneous Definitions.** As used herein, and unless the context shall otherwise indicate, the words “Bond,” “Owner” and “Person” shall include the plural as well as the singular number.



As used herein, the terms “herein,” “hereunder,” “hereby,” “hereto,” “hereof” and any similar terms refer to this Indenture.

Unless the context shall otherwise indicate, references herein to articles, sections, subsections, clauses, paragraphs and other subdivisions refer to the designated articles, sections, subsections, clauses, paragraphs and other subdivisions of this Indenture as originally executed.

## ARTICLE II

### AUTHORIZATION AND ISSUANCE OF BONDS

**Section 201. Authorization of Bonds and Hedging Transactions.** (A) The MTA shall not issue any Bonds while this Indenture is in effect except in accordance with the provisions of this Article II. All Bonds issued under this Indenture shall be designated “Los Angeles County Metropolitan Transportation Authority Capital Grant Receipts Revenue Bonds, Series \_\_\_\_\_ (Gold Line Eastside Extension Project)” and shall include such further appropriate designations as the MTA may determine.

(B) Bonds may be issued in one or more Series and each Bond shall bear upon its face the designation determined for its Series. Any two or more Series may be consolidated for purposes of sale in such manner as may be provided in the Supplemental Indenture authorizing such Series.

(C) The MTA shall not enter into any Qualified Swap or Cap Agreements while this Indenture is in effect except in accordance with the provisions of this Article II.

**Section 202. General Provisions for Issuance of Bonds.** (A) Bonds of each Series shall be executed by the MTA and delivered to the Trustee and thereupon shall be authenticated by the Trustee and delivered to the MTA or upon its order, but only upon the receipt by the Trustee, at or prior to such authentication, of:

(1) A Counsel’s Opinion regarding the validity and enforceability of such Bonds and the federal income tax treatment of the interest on such Bonds.

(2) A written order as to the delivery of such Bonds signed by an Authorized Officer, which order shall direct, among other things, the application of the proceeds of such Bonds.

(3) In the case of the 2005 Bonds, an executed copy of this Indenture and a copy of the Bond Resolution, certified by the Secretary or the Assistant Secretary of the Board. In the case of each Series of Additional Bonds, an executed copy of the Supplemental Indenture and the resolution authorizing such Bonds, so certified, which shall specify:

(a) The authorized principal amount, designation and Series of such Bonds.

(b) The purposes for which such Series of Bonds is being issued.

- (c) The date, and the maturity date or dates, of the Bonds of such Series.
  - (d) The interest rate or rates of the Bonds of such Series, or the manner of determining such rate or rates, and the Interest Payment Dates and Record Dates therefor.
  - (e) The Authorized Denominations and the manner of dating, numbering and lettering of the Bonds of such Series.
  - (f) The Registrar and the Paying Agent or Paying Agents for the Bonds of such Series.
  - (g) The Redemption Price or Prices, if any, and any redemption dates and terms for the Bonds of such Series not determined herein.
  - (h) The amount and date of each Sinking Fund Installment, if any, for Bonds of like maturity of such Series, provided that the aggregate of such Sinking Fund Installments shall equal the aggregate principal amount of all such Bonds less the principal amount scheduled to be retired at maturity.
- (4) A copy of each Full Funding Grant Agreement then in effect, certified by the Secretary or Assistant Secretary of the Board or an Authorized Officer.
- (5) The amount of the Debt Service Reserve Requirement calculated immediately after such authentication and delivery and, except as otherwise provided by Section 506(D)(1), evidence of the deposit of sufficient funds to the Debt Service Reserve Fund to cause the amount on deposit therein on the date of such authentication and delivery to equal the Debt Service Reserve Requirement.
- (6) Such further documents, moneys and securities as are required by the provisions of this Indenture or any Supplemental Indenture.
- (B) Bonds of the same Series and maturity shall be of like tenor except as to rate, denomination and form. After the original issuance of Bonds of a Series, no Bonds of such Series shall be issued except in lieu of or in substitution for other Bonds of such Series pursuant to Article III, Section 406 or Section 1106.

**Section 203. Series 2005A Bonds, Series 2005B-1 Bonds and Series 2005B-2 Bonds.**

(A) A Series of Bonds entitled to the benefit, protection and security of this Indenture is hereby authorized in the aggregate principal amount of \$\_\_\_\_\_ to finance the Costs of Construction of the Project, including to reimburse the MTA for prior expenditures relating to the Project, to fund the Debt Service Reserve Fund, to capitalize interest on the 2005 Bonds by a deposit to the 2005 Capitalized Interest Account, and to pay costs in connection with the issuance of the 2005 Bonds. Such Series of Bonds shall be designated as, and shall be distinguished from the Bonds of all other Series, by the title “Los Angeles County Metropolitan Transportation Authority Capital Grant Receipts Revenue Bonds, Series 2005A (Gold Line Eastside Extension Project).”

(B) A Series of Bonds entitled to the benefit, protection and security of this Indenture is hereby authorized in the aggregate principal amount of \$\_\_\_\_\_ to finance the Costs of Construction of the Project, including to reimburse the MTA for prior expenditures relating to the Project, to fund the Debt Service Reserve Fund, to capitalize interest on the 2005 Bonds by a deposit to the 2005 Capitalized Interest Account, and to pay costs in connection with the issuance of the 2005 Bonds. Such Series of Bonds shall be designated as, and shall be distinguished from the Bonds of all other Series, by the title “Los Angeles County Metropolitan Transportation Authority Capital Grant Receipts Revenue Bonds, Series 2005B-1 (Gold Line Eastside Extension Project).”

(C) A Series of Bonds entitled to the benefit, protection and security of this Indenture is hereby authorized in the aggregate principal amount of \$\_\_\_\_\_ to finance the Costs of Construction of the Project, including to reimburse the MTA for prior expenditures relating to the Project, to fund the Debt Service Reserve Fund, to capitalize interest on the 2005 Bonds by a deposit to the 2005 Capitalized Interest Account, and to pay costs in connection with the issuance of the 2005 Bonds. Such Series of Bonds shall be designated as, and shall be distinguished from the Bonds of all other Series, by the title “Los Angeles County Metropolitan Transportation Authority Capital Grant Receipts Revenue Bonds, Series 2005B-2 (Gold Line Eastside Extension Project).”

(D) Each 2005 Bond shall be in registered form and shall be initially dated the date of issuance thereof and thereafter shall be dated in accordance with the provisions of Section 301. Each Series 2005A Bond shall bear interest payable on [October 1, 2005] and semi-annually thereafter on April 1 and October 1 in each year, computed on the basis of a 360-day year consisting of twelve 30-day months. Each Series 2005B-1 Bond and Series 2005B-2 Bond shall be issued as ARS, and the provisions of Article XIII shall govern the interest rates per annum and the payment terms thereof.

(E) The Series 2005A Bonds shall mature on October 1 of each of the years and in the principal amounts and shall bear interest at the respective rates per annum set forth in the table below:

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
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(F) The Series 2005B-1 Bonds and the Series 2005B-2 Bonds shall mature on October 1, 2010.

(G) The 2005 Bonds shall be in Authorized Denominations (but no single 2005 Bond shall represent principal maturing on more than one date) and each 2005 Bond of like Series shall be numbered consecutively but need not be authenticated or delivered in consecutive order. The 2005 Bonds and the Trustee’s Certificate of Authentication shall be in substantially the forms set forth in *Exhibit A* and *Exhibit B* attached hereto and by reference made a part hereof with such variations, omissions or insertions as are required or permitted by this Indenture.

(H) The principal and Redemption Price of the 2005 Bonds shall be payable at the designated corporate trust offices of the Trustee, in the City of Los Angeles, California, as Paying Agent, and at such offices of any co-Paying Agent or successor Paying Agent or Paying Agents appointed pursuant to this Indenture for the 2005 Bonds. Interest on the 2005 Bonds shall be payable by check or bank draft mailed or delivered by the Trustee to the Owners as the same appear on the registration books of the MTA maintained by the Registrar as of the Record Date or, at the option of any Owner, by wire transfer of Current Funds to such bank in the continental United States as said Owner shall request in writing to the Registrar.

(I) The net proceeds of the 2005 Bonds, upon receipt, shall be deposited as follows:

- (i) \$\_\_\_\_\_ shall be deposited into the Construction Fund;
- (ii) \$\_\_\_\_\_ shall be deposited into the 2005 Capitalized Interest Account;
- (iii) \$\_\_\_\_\_ shall be applied by the MTA to the payment of the premium for the Bond Insurance Policy;
- (iv) \$\_\_\_\_\_ shall be deposited into the Debt Service Reserve Fund; and
- (v) \$\_\_\_\_\_ shall be paid to the MTA to reimburse Costs of Construction of the Project paid by the MTA.

(J) The 2005 Bonds shall be initially issued in the form of a separate single fully registered Bond for each maturity of each Series. Upon initial issuance, the ownership of each such Bond shall be registered in the registration books kept by the Trustee in the name of Cede & Co., as nominee of DTC, and except as hereinafter provided, the ownership of all of the outstanding 2005 Bonds shall be registered in the name of Cede & Co., as nominee of DTC.

With respect to 2005 Bonds registered in the name of Cede & Co., as nominee of DTC, the MTA and the Trustee shall have no responsibility or obligation to any DTC Participant or to any person on behalf of whom such a DTC Participant holds an interest in the 2005 Bonds. Without limiting the immediately preceding sentence, the MTA and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co. or any DTC Participant with respect to any ownership interest in any 2005 Bond, (ii) the delivery to any DTC Participant or any other Person, other than the Owner of any 2005 Bond, of any notice with respect to such Bond, including without limitation any notice of redemption, or (iii) the payment to any DTC Participant or any other Person, other than the Owner of any 2005 Bond, of any amount with respect to Principal or Redemption Price of or interest on such 2005 Bond. The MTA, the Trustee and each other Paying Agent, if any, shall be entitled to treat and consider the Person in whose name each 2005 Bond is registered as the absolute owner of such 2005 Bond for the purpose of payment of Principal or Redemption Price and interest with respect to such 2005 Bond, for the purpose of giving notices of redemption, for the purpose of registering transfers with respect to such 2005 Bond and for all other purposes whatsoever. The Trustee and each other Paying Agent, if any, shall pay all Principal or Redemption Price of and interest on the 2005 Bonds only to or upon the order of the respective Owners thereof, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to satisfy

and discharge fully the MTA's obligations with respect to payment of Principal or Redemption Price of and interest on the 2005 Bonds to the extent of the sum or sums so paid. No Person other than an Owner of a 2005 Bond shall receive a 2005 Bond certificate of the applicable Series evidencing the obligation of the MTA to make payments of principal or Redemption Price of and interest on the 2005 Bonds pursuant to this Indenture.

The Owners of the 2005 Bonds have no right to the appointment or retention of a depository for such 2005 Bonds. DTC may resign or be removed as securities depository under the conditions provided in the Letter of Representations. In the event of any such resignation or removal, the MTA shall (i) appoint a successor securities depository, qualified to act as such under Section 17(a) of the Securities Exchange Act of 1934, as amended, notify DTC of the appointment of such successor securities depository and transfer or cause the transfer of one or more separate 2005 Bond certificates to such successor securities depository or (ii) notify DTC of the availability through DTC of 2005 Bond certificates and transfer or cause the transfer of one or more separate 2005 Bond certificates to DTC Participants having 2005 Bonds credited to their DTC accounts. In such event, the 2005 Bonds shall no longer be restricted to being registered in the name of Cede & Co., as nominee of DTC, but may be registered in the name of the successor securities depository, or its nominee, or in whatever name or names the DTC Participants receiving 2005 Bonds shall designate, in accordance with the provisions of this Indenture.

The MTA has heretofore executed and delivered the Letter of Representations to DTC. So long as DTC, or its designee, is the Owner of all 2005 Bonds, the provisions set forth in the Letter of Representations shall apply to the redemption of any 2005 Bonds and to the payment of Principal or Redemption Price of and interest on the 2005 Bonds, including without limitation, that: (1) presentation of 2005 Bonds to the Trustee upon redemption or at maturity shall be deemed made to the Trustee when the right to exercise ownership rights in the 2005 Bonds through DTC or DTC's Participants is transferred by DTC on its books; and (2) DTC may present notices, approvals, waivers or other communications required or permitted to be made by Owners of 2005 Bonds under this Indenture on a fractionalized basis on behalf of some or all of those Persons entitled to exercise ownership rights in the 2005 Bonds through DTC or DTC's Participants.

So long as the 2005 Bonds are registered in the name of Cede & Co., as nominee of DTC, the Trustee agrees to comply with the terms and provisions of the Letter of Representations.

**Section 204. Additional Bonds.** (A) One or more Series of Additional Bonds may be authenticated and delivered upon original issuance to refund or advance refund any or all Outstanding Bonds of one or more Series and to pay costs and expenses incident to the issuance of such Additional Bonds.

(B) Additional Bonds of a Series to refund or advance refund Outstanding Bonds shall be authenticated and delivered by the Trustee only upon receipt by it (in addition to the documents, securities and moneys required by Section 202) of:

(1) Such instructions to the Trustee as necessary to comply with all requirements set forth in Section 1201 so that the Bonds to be refunded or advance refunded will be paid or deemed to be paid pursuant to said Section 1201.

(2) Either (i) moneys in an amount sufficient to effect payment of the principal and Redemption Price, if applicable, and interest due and to become due on the Bonds to be refunded or advance refunded on and prior to the redemption date or maturity date thereof, as the case may be, which moneys shall be held by the Trustee or any of the Paying Agents in a separate account irrevocably in trust for and assigned to the respective Owners of the Bonds to be refunded or advance refunded, or (ii) Defeasance Obligations in such principal amounts, of such maturities, and bearing interest at such rates as shall be necessary, together with the moneys, if any, deposited with the Trustee at the same time, to comply with the provisions of Section 1201(B).

(3) A certificate of an Authorized Officer evidencing that for each Bond Year ending on or prior to the latest maturity date of any Bond Outstanding as the time immediately prior to the issuance of such Series of Additional Bonds, the Annual Debt Service Requirements for any such Bond Year on account of all Bonds Outstanding, after the issuance of such Additional Bonds and the redemption or provision for payment of the Bonds to be refunded, shall not exceed the Annual Debt Service Requirements for the corresponding Bond Years on account of all the Bonds Outstanding, including the Bonds to be refunded, immediately prior to the issuance of such Additional Bonds.

(C) The proceeds, including accrued interest, of the Additional Bonds of each Series shall be applied upon their delivery as follows:

(1) there shall be deposited in the Debt Service Reserve Fund the amount, if any, necessary so that the amount therein equals the Debt Service Reserve Requirement calculated immediately after such delivery, to the extent not funded from any other source or otherwise provided for by a Debt Reserve Credit Facility pursuant to Section 506(D)(1);

(2) there shall be deposited in any other Fund, Account or Sub-Account under this Indenture the amount, if any, required by the Supplemental Indenture authorizing such Series, including, but not limited to, an amount to be applied to the payment of costs and expenses incident to the issuance of such Refunding Bonds;

(3) the amount of such proceeds needed for the refunding of the Bonds to be refunded and for the payment of expenses incidental to such refunding shall be used for such purposes; and

(4) any balance of such proceeds shall be applied in accordance with the written instructions of the MTA, signed by an Authorized Officer and filed with the Trustee.

(D) Additional Bonds may be issued as Capital Appreciation Bonds, Capital Appreciation and Income Bonds, Current Interest Bonds, ARS, Serial Bonds or Term Bonds or

any combination thereof, all as provided in the Supplemental Indenture providing for the issuance thereof.

**Section 205. Hedging Transactions.** (A) If the MTA shall enter into a Qualified Swap or Cap Agreement with a Swap or Cap Provider and the MTA has made a determination that such Qualified Swap or Cap Agreement was entered into for the purpose of providing substitute or supplemental interest payments for Bonds of a particular Series and maturity or maturities in a principal amount equal to the notional amount of the Qualified Swap or Cap Agreement, then during the term of the Qualified Swap or Cap Agreement and so long as the Swap or Cap Provider under such Qualified Swap or Cap Agreement is not in default thereunder:

(1) if the MTA is required to pay a fixed interest rate or variable interest rate on a notional amount under such Qualified Swap or Cap Agreement, then for purposes of any calculation of Interest Requirements, the interest rate on the Bonds of such Series and maturity or maturities shall be determined as if such Bonds bore interest at the fixed interest rate or the variable interest rate, as the case may be, payable by the MTA under such Qualified Swap or Cap Agreement;

(2) any net payments required to be made by the MTA to the Swap or Cap Provider pursuant to such Qualified Swap or Cap Agreement from Grant Receipts shall be made from amounts on deposit to the credit of the Interest Account; and

(3) any net payments received by the MTA from the Swap or Cap Provider pursuant to such Qualified Swap or Cap Agreement shall be deposited to the credit of the Interest Account, and such payments shall be reflected in any calculation of Interest Requirements.

(B) If the MTA shall enter into a swap or interest rate cap agreement of the type generally described in subsection (A) of this Section that does not satisfy the requirements for qualification as a Qualified Swap or Cap Agreement, then:

(1) the interest rate adjustments or assumptions referred to in paragraph (1) of said subsection (A) shall not be made;

(2) any net payments required to be made by the MTA to the Swap or Cap Provider pursuant to such swap agreement shall be made either (i) from sources other than Grant Receipts or (ii) if made from Grant Receipts, such payments, and any lien on Grant Receipts securing such payments, shall be junior and subordinate to the pledge of and lien on Grant Receipts created by this Indenture as security for the payment of the Bonds; and

(3) any net payments received by the MTA from the Swap or Cap Provider pursuant to such swap agreement may be treated as Grant Receipts at the option of the MTA, and if so treated shall be deposited in the same manner as Full Funding Grant Receipts in accordance with Section 504(A).

(C) With respect to a Qualified Swap or Cap Agreement described in subsection (A) of this Section or a swap agreement described in subsection (B) of this Section, any termination

payment required to be made by the MTA to the Swap or Cap Provider shall be made either (i) from sources other than Grant Receipts, or (ii) if made from Grant Receipts, such termination payment and any lien on Grant Receipts securing such termination payment shall be junior and subordinate to the pledge of and lien on Grant Receipts created by this Indenture as security for the payment of the Bonds.

### ARTICLE III

#### GENERAL TERMS AND PROVISIONS OF BONDS

**Section 301. Medium of Payment; Form and Date; Letters and Numbers.** (A) The Bonds shall be payable, with respect to interest, principal and Redemption Price, in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

(B) Any Bonds of a Series shall be issued only in the form of fully registered Bonds without coupons or, pursuant to the provisions of a Supplemental Indenture, in any other form permitted by law at the time of original issuance, including, but not limited to, Bonds which are transferable through a book-entry system.

(C) Each Bond shall be lettered and numbered as provided in this Indenture or the Supplemental Indenture authorizing the Series of which such Bond is a part and so as to be distinguished from every other Bond.

(D) Bonds shall be dated as provided in this Indenture or the Supplemental Indenture authorizing the Bonds of such Series. 2005 Bonds authenticated and delivered prior to September 15, 2005, shall be dated as of the date of issuance thereof. 2005 Bonds authenticated and delivered on or after September 15, 2005 shall be dated the April 1 or October 1 preceding the date of their authentication and delivery to which interest has been paid or duly provided for, except 2005 Bonds authenticated and delivered on a April 1 or October 1 to which interest has been paid or duly provided shall be dated that April 1 or October 1.

**Section 302. Legends.** The Bonds of each Series may contain or have endorsed thereon such provisions, specifications and descriptive words not inconsistent with the provisions of this Indenture as may be necessary or desirable to comply with custom, law, the rules of any securities exchange or commission or brokerage board, or otherwise, as may be determined by the MTA or the Trustee prior to the authentication and delivery thereof.

**Section 303. Execution and Authentication.** (A) The Bonds shall be executed in the name of the MTA by the manual or facsimile signatures of the Chief Executive Officer or the Executive Officer, Finance and Treasurer of the MTA and the Secretary or Assistant Secretary of the Board and its corporate seal (or a facsimile thereof) shall be impressed, imprinted, engraved or otherwise reproduced thereon. In case any one or more of the officers who shall have signed or sealed any of the Bonds shall cease to be such officer before the Bonds so signed and sealed shall have been authenticated and delivered by the Trustee, such Bonds may, nevertheless, be authenticated and delivered as herein provided, and may be issued as if the persons who signed or sealed such Bonds had not ceased to hold such offices. Any Bond may be signed and sealed



on behalf of the MTA by such persons who at the time of the execution of such Bond shall hold the proper office in the MTA, although at the date of such Bond such persons may not have been so authorized or have held such office.

(B) The Bonds shall bear a certificate of authentication, in the form set forth in this Indenture or the Supplemental Indenture authorizing such Bonds, executed manually by the Trustee. Only such Bonds as shall bear such certificate of authentication shall be entitled to any right or benefit under this Indenture, and no such Bond shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Trustee. Such certificate of the Trustee upon any such Bond executed on behalf of the MTA shall be conclusive evidence that the Bond so authenticated has been duly authenticated and delivered under this Indenture and that the Owner thereof is entitled to the benefits of this Indenture.

**Section 304. Exchangeability of Bonds.** Subject to the provisions of Section 306, any Bond, upon surrender at the corporate trust office of the Registrar with a written instrument of transfer satisfactory to the Registrar, duly executed by the Owner or its duly authorized attorney, may, at the option of the Owner and upon payment of any charges which the Trustee may make as provided in Section 306, be exchanged for an equal aggregate principal amount of fully registered Bonds of the same Series, maturity, and interest rate and tenor of any other Authorized Denominations.

**Section 305. Negotiability, Transfer and Registration.** (A) Each Bond shall be transferable only upon the registration books of the MTA, which shall be kept for that purpose by the Registrar, by the Owner in person or by its attorney duly authorized in writing, upon surrender thereof with a written instrument of transfer satisfactory to the Registrar, duly executed by the Owner or its duly authorized attorney. Upon the transfer of any such Bond, the MTA shall issue in the name of the transferee a new Bond or Bonds in Authorized Denominations of the same aggregate principal amount, Series, maturity and interest rate as the surrendered Bond.

(B) The MTA and each Fiduciary may deem and treat the person in whose name any Bond shall be registered upon the registration books of the MTA as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal and Redemption Price, if any, of and interest on such Bond and for all other purposes, and all such payments so made to any such Owner or upon its order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither the MTA nor any Fiduciary shall be affected by any notice to the contrary.

**Section 306. Provisions with Respect to Exchanges and Transfers.** In all cases in which the privilege of transferring or exchanging Bonds is exercised, the MTA shall execute and the Trustee shall authenticate and deliver Bonds in accordance with the provisions of this Indenture. All Bonds surrendered in any such exchanges shall forthwith be canceled by the Trustee. For any exchange or transfer of Bonds, whether temporary or definitive, the MTA, the Trustee or the Registrar may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid. The Registrar and the Trustee shall not be required to make any registration, transfer or exchange of any Bond during the period after such Bond has

been called for redemption or, in the case of any proposed redemption of Bonds, during the 15 days next preceding the date of first giving notice of such redemption.

**Section 307. Bonds Mutilated, Destroyed, Stolen or Lost.** In case any Bond shall become mutilated or be destroyed, stolen or lost, the MTA shall execute, and thereupon the Trustee shall authenticate and deliver, a new Bond of like Series, maturity, interest rate and principal amount as the Bonds so mutilated, destroyed, stolen or lost, in exchange and substitution for such mutilated Bond, upon surrender and cancellation of such mutilated Bond or in lieu of and substitution for the Bond destroyed, stolen or lost, upon filing with the Trustee or Registrar evidence satisfactory to the MTA and the Trustee or Registrar that such Bond has been destroyed, stolen or lost and proof of ownership thereof, and upon furnishing the MTA and the Trustee or Registrar with indemnity satisfactory to them and complying with such other reasonable regulations as the MTA, the Trustee or Registrar may prescribe and paying such expenses as the MTA and Trustee and Registrar may incur. All Bonds so surrendered to the Trustee or Registrar shall be canceled by the Trustee in accordance with Section 1205. Any such new Bonds issued pursuant to this Section in substitution for Bonds alleged to be destroyed, stolen or lost shall constitute original additional contractual obligations on the part of the MTA, whether or not the Bonds so alleged to be destroyed, stolen or lost shall be found at any time or be enforceable by anyone, shall be entitled to equal and proportionate benefits with all other Bonds of the same Series issued under this Indenture and shall be equally secured by the moneys or securities held by the MTA or any Fiduciary for the benefit of the Owners.

## ARTICLE IV

### REDEMPTION OF BONDS

**Section 401. Privilege of Redemption and Redemption Price.** Bonds subject to redemption prior to maturity pursuant to this Indenture or a Supplemental Indenture shall be redeemable, upon notice given as provided in this Article IV, at such times, at such Redemption Prices and upon such terms, in addition to the terms contained in Article IV, as may be specified in this Indenture or in the Supplemental Indenture authorizing such Series.

**Section 402. Redemption at the Election or Direction of the MTA.** In the case of any redemption of Bonds at the election or direction of the MTA, the MTA shall give written notice to the Trustee of its election or direction so to redeem, of the date fixed for redemption, of the Series, and of the principal amounts and interest rates of the Bonds of each maturity of such Series to be redeemed. Such notice shall be given at least 45 days prior to the specified redemption date or such shorter period as shall be acceptable to the Trustee. In the event notice of redemption shall have been given as in Section 405 provided, there shall be paid on or prior to the specified redemption date to the Trustee an amount in cash or Government Obligations maturing on or before the specified redemption date which, together with other moneys, if any, available therefor held by the Trustee, will be sufficient to redeem all of the Bonds to be redeemed on the specified redemption date at their Redemption Price plus interest accrued and unpaid to the date fixed for redemption; such amount and moneys shall be held in a separate, segregated account for the benefit of the Owners of the Bonds so called for redemption.

**Section 403. Redemption Otherwise Than at MTA's Election or Direction.**

Whenever by the terms of this Indenture the Trustee is required or authorized to redeem Bonds otherwise than at the election or direction of the MTA, the Trustee shall select the Bonds to be redeemed, give the notice of redemption and pay the Redemption Price thereof, plus interest accrued and unpaid to the date fixed for redemption, in accordance with the terms of Articles IV and V to the extent applicable.

**Section 404. Selection of Bonds to Be Redeemed.** Unless otherwise provided by Supplemental Indenture, if less than all of the Bonds of like maturity and interest rate of any Series shall be called for prior redemption, the particular Bonds or portion of Bonds to be redeemed shall be selected at random by the Trustee in such manner as the Trustee in its discretion may deem fair and appropriate; *provided, however*, that the portion of any Bond of a denomination of more than the minimum Authorized Denomination for the Bonds of such Series to be redeemed shall be in the principal amount of an Authorized Denomination for the Bonds of such Series and that, in selecting portions of such Bonds for redemption, the Trustee shall treat each such Bond as representing that number of Bonds of said minimum Authorized Denomination which is obtained by dividing the principal amount of such Bond to be redeemed in part by said minimum Authorized Denomination. If all Bonds of any Series are held in book-entry only form, the particular Bonds or portions thereof of such Series to be redeemed shall be selected by the securities depository for such Series of Bonds in such manner as such securities depository shall determine.

**Section 405. Notice of Redemption.** When the Trustee shall receive notice from the MTA of its election or direction to redeem Bonds pursuant to Section 402, and when redemption of Bonds is authorized or required pursuant to Section 403, the Trustee shall give notice, in the name of the MTA, of the redemption of such Bonds, which notice shall specify the Series and maturities and interest rates of the Bonds to be redeemed, the date fixed for redemption and the place or places where amounts due upon such date fixed for redemption will be payable and, if less than all of the Bonds of any like Series and maturity and interest rate are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds so to be redeemed, and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. Such notice shall further state that on such date there shall become due and payable the Redemption Price of each Bond to be redeemed, or the Redemption Price of the specified portions of the principal thereof in the case of Bonds to be redeemed in part only, together with interest accrued to the date fixed for redemption, and that from and after such date interest thereon shall cease to accrue and be payable. The Trustee shall mail copies of such notice by first-class mail, postage prepaid, not more than 60 days nor less than 30 days before the date fixed for redemption, to the Owners of the Bonds to be redeemed at their addresses as shown on the registration books of the MTA maintained by the Registrar and to the Broker-Dealers. If the Trustee mails notices of redemption as herein provided, notice shall be conclusively presumed to have been given to all Owners.

With respect to an optional redemption of any Bonds, unless moneys sufficient to pay the principal of, redemption premium, if any, and interest on the Bonds to be redeemed shall have been received by the Trustee prior to the giving of such notice of redemption, such notice may, at the option of the MTA, state that said redemption shall be conditional upon the receipt of such moneys by the Trustee on or prior to the date fixed for redemption. If such moneys are not

received, such notice shall be of no force and effect, the MTA shall not redeem such Bonds and the Trustee shall give notice, in the same manner in which the notice of redemption was given, that such moneys were not so received and that such Bonds will not be redeemed.

**Section 406. Payment of Redeemed Bonds.** Notice having been given in the manner provided in Section 405, the Bonds or portions thereof so called for redemption shall become due and payable on the date fixed for redemption at the Redemption Price, plus interest accrued and unpaid to such date, and, upon presentation and surrender thereof at any place specified in such notice, such Bonds, or portions thereof, shall be paid at the Redemption Price, plus interest accrued and unpaid to such date. If there shall be called for redemption less than all of a Bond, the MTA shall execute and the Trustee shall authenticate and the appropriate Fiduciary shall deliver, upon the surrender of such Bond, without charge to the Owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered, fully registered Bonds of like Series and maturity and interest rate in any Authorized Denominations. If, on the date fixed for redemption, moneys for the redemption of all the Bonds or portions thereof of any like Series and maturity and interest rate to be redeemed, together with interest to such date, shall be held by the Trustee so as to be available therefor on said date and if notice of redemption shall have been given as aforesaid, then, from and after the date fixed for redemption, interest on the Bonds or portions thereof of such Series and maturity and interest rate so called for redemption shall cease to accrue and become payable. If said moneys shall not be so available on the date fixed for redemption, such Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

**Section 407. Adjustment of Sinking Fund Installments.** In the event of the optional redemption by the MTA of less than all the Bonds of like Series and maturity and interest rate with respect to which Sinking Fund Installments have been established, the principal amount so redeemed shall be credited against the unsatisfied balance of future Sinking Fund Installments or the final maturity amount established with respect to such Bonds, in such amount and against such Sinking Fund Installments or final maturity amount as shall be determined by the MTA in a certificate of an Authorized Officer filed with the Trustee prior to the mailing of the notice of redemption of such Bonds or, in the absence of such determination, shall be credited pro-rata against the applicable Sinking Fund Installments and final maturity amount.

**Section 408. Redemption of Bonds.** [TO COME]

## ARTICLE V

### GRANT RECEIPTS AND ESTABLISHMENT OF FUNDS AND APPLICATIONS THEREOF

**Section 501. The Pledge Effected by this Indenture.** (A) There are hereby pledged for the payment of the principal and Redemption Price of, and interest on, the Bonds in accordance with their terms and the provisions of this Indenture, and a lien is hereby granted for such purpose, subject only to the provisions of this Indenture permitting or requiring the application thereof for the purposes and on the terms and conditions set forth in this Indenture, (i) the Grant Receipts, (ii) amounts on deposit in all Funds, Accounts and Sub-Accounts established under this Indenture (except the Rebate Fund), and (iii) any and all other moneys and securities furnished

from time to time to the Trustee by the MTA or on behalf of the MTA or by any other persons to be held by the Trustee under the terms of this Indenture; provided, that the application of moneys to the payments due to a Swap or Cap Provider under a Qualified Swap or Cap Agreement is expressly limited to the extent provided in this Indenture.

(B) Pursuant to California Government Code Sections 5920 et seq., the Grant Receipts and the other moneys and securities hereby pledged shall immediately be subject to the lien and pledge hereof without any physical delivery or further act, and the lien and pledge hereof shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the MTA, irrespective of whether such parties have notice hereof.

(C) The Bonds are limited obligations of the MTA payable solely from the Grant Receipts pledged for their payment in accordance with this Indenture. The Bonds are not, and shall not be or become, an indebtedness or obligation of the State or any political subdivision of the State (other than the MTA) or of any municipality within the State nor shall any Bond be or become an indebtedness of the MTA within the purview of any constitutional limitation or provision.

(D) No lien upon any physical properties of the MTA is, or shall ever be, created by this Indenture.

**Section 502. Establishment of Funds and Accounts.** The MTA hereby establishes the Construction Fund, the Debt Service Fund, the Debt Service Reserve Fund and the Full Funding Grant Receipts Construction Fund, each of which shall be a special fund of the MTA held in trust by the Trustee. Subject to use and application in accordance with this Indenture, all of the moneys and securities held in said Funds are pledged as security for the payment of the principal of, redemption premium, if any, and interest on, the Bonds and shall be subject to the lien of the Indenture. The MTA hereby establishes the Rebate Fund as a special fund of the MTA held in trust by the Trustee. The MTA hereby establishes the Interest Account, the Principal Account and the Redemption Account as special accounts within the Debt Service Fund and the 2005 Capitalized Interest Account as a special account within the Construction Fund.

**Section 503. Construction Fund.** (A) On the date of issuance of the 2005 Bonds, the Trustee shall deposit into the Construction Fund the amount set forth in clause (i) of Section 203(I). The Trustee shall make payment of the Cost of Construction of the Project from the Construction Fund as provided in this Section and, with respect to the payment of interest on the 2005 Bonds capitalized from the proceeds of the 2005 Bonds, from the 2005 Capitalized Interest Account as provided in Section 507. The Trustee shall withdraw from the Construction Fund and deposit into the Rebate Fund the amount specified in any certificate filed with the Trustee pursuant to Section 508(B). The Trustee shall withdraw moneys from the Construction Fund to pay cost of issuance of the 2005 Bonds in accordance with the directions of the MTA expressed in a certificate of an Authorized Officer filed with the Trustee. All other payments from the Construction Fund shall be subject to the provisions and restrictions set forth in this Section.

(B) The Trustee shall, during and upon completion of construction of the Project, make payments from the Construction Fund in addition to those made pursuant to subsection (B)

of this Section, in the amounts, at the times, in the manner, and on the other terms and conditions set forth in this Section. Before any such payment shall be made, the MTA shall file with the Trustee:

(1) its requisition therefor, stating in respect of each payment to be made: (a) the name of the person, firm or corporation to whom payment is due, (b) the amount to be paid, and (c) in reasonable detail the purpose for which the obligation was incurred; and

(2) its certificate attached to the requisitions certifying: (a) that obligations in the stated amounts have been incurred by the MTA in or about the construction of the Project, and that each item thereof is a proper charge against the Construction Fund and is a proper Cost of Construction and has not been paid, (b) that there has not been filed with or served upon the MTA notice of any lien, right to lien, or attachment upon, or claim affecting the right to receive payment of, any of the moneys payable under such requisition, or if any such lien, attachment or claim has been filed or served upon the MTA, that such lien, attachment or claim has been released or discharged, and (c) that such requisition contains no item representing payment on account of any retained percentages which the MTA is at the date of such certificate entitled to retain.

Upon receipt of each such requisition and accompanying certificates the Trustee shall transfer from the Construction Fund to the credit of a special account in the name of the MTA, an amount equal to the total of the amounts to be paid as set forth in such requisition, the amounts in such special account to be held solely for the payment of the obligations set forth in such requisition. In making such transfer, the Trustee may rely upon such requisition and accompanying certificates. Each such obligation shall be paid by check or wire transfer signed by an Authorized Officer drawn on such special account to the order of the Person named in and in accordance with the requisition. Moneys deposited to the credit of such special account shall be deemed to be a part of the Construction Fund until paid out as above provided. If for any reason the MTA should decide prior to the payment of any item in a requisition to stop payment of such item, an Authorized Officer shall give notice of such decision to the Trustee and thereupon the Trustee shall transfer the amount of such item from such special account to the Construction Fund.

(C) The Trustee shall withdraw from the Construction Fund and pay into the Funds and Accounts established under the Indenture any balance in the Construction Fund, or any part thereof, in the amounts, at the times, in the manner, and on the other terms and conditions set forth in subsection (D) of this Section. Before any such withdrawal and payment shall be made, the MTA shall file with the Trustee its certificate certifying: (1) that the Project has been completed or substantially completed, and (2) that a sum stated in the certificate is sufficient to pay, and is required to be reserved in the Construction Fund to pay, all Costs of Construction then remaining unpaid, including the estimated amount of any such items the amount of which is not finally determined and all claims against the MTA arising out of the construction thereof. Upon receipt of such requisition and accompanying certificates and opinion, the Trustee shall withdraw from the Construction Fund the amount stated in such requisition, provided that no such withdrawal shall be made if it would reduce the amount in the Construction Fund below the

amount stated in the said certificate of the MTA as required to be reserved in the Construction Fund.

(D) Any amount withdrawn from the Construction Fund pursuant to subsection (C) of this Section shall be deposited first into the Interest Account to the extent required to increase the amount therein to the sum of the Interest Requirement for all Outstanding Bonds for the then current Interest Period and the next Interest Period, and then into the Principal Account to the extent required to increase the amount therein to the Principal Requirement for all Outstanding Bonds for the current Bond Year, and any amount remaining after the foregoing deposits have been made shall be deposited into the Redemption Account.

**Section 504. Deposit and Application of Grant Receipts.** (A) All Full Funding Grant Receipts received by the MTA shall be deposited promptly with the Trustee. As soon as practicable the Trustee shall make payments from the Full Funding Grant Receipts into the following several Funds and Accounts, but as to each such Fund or Account only within the limitation hereinbelow indicated with respect thereto and only after maximum payment within such limitation into every such Fund or Account previously mentioned in the following tabulation:

First: Into the Interest Account, to the extent, if any, necessary to increase the amount in the Interest Account so that it equals the Interest Requirements for all Outstanding Bonds for the succeeding Fiscal Year.

Second: Into the Principal Account, to the extent, if any, needed to increase the amount in the Principal Account so that it equals the Principal Requirements for all Outstanding Bonds for the succeeding Fiscal Year.

Third: Into the Debt Service Reserve Fund, to the extent, if any, needed to increase the amount in the Debt Service Reserve Fund so that it equals the Debt Service Reserve Requirement.

Fourth: To the MTA, an amount specified by the MTA in a certificate of an Authorized Officer filed by the Trustee as needed to reimburse a provider of a Debt Reserve Credit Facility for disbursements thereunder.

Fifth: Into the Rebate Fund, an amount specified by the MTA in a certificate of an Authorized Officer filed with the Trustee pursuant to Section 508(B).

Sixth: Into the Full Funding Grant Receipts Construction Fund, an amount specified by the MTA in a certificate of an Authorized Officer filed with the Trustee pursuant to Section 509(A).

Seventh: Into the Redemption Account, any remaining amounts.

(B) All Section 5307 Grant Receipts received by the MTA shall be deposited promptly with the Trustee. As soon as practicable the Trustee shall make payments from the Section 5307 Grant Receipts into the following several Funds and Accounts, but as to each such Fund or Account only within the limitation hereinbelow indicated with respect thereto and only

after maximum payment within such limitation into every such Fund or Account previously mentioned in the following tabulation:

First: Into the Interest Account, to the extent, if any, necessary to increase the amount in the Interest Account so that it equals the Interest Requirements for all Outstanding Bonds for the succeeding Fiscal Year.

Second: Into the Principal Account, to the extent, if any, needed to increase the amount in the Principal Account so that it equals the Principal Requirements for all Outstanding Bonds for the succeeding Fiscal Year.

Third: To the MTA, any remaining amounts.

(C) Notwithstanding the provisions of paragraphs (A) and (B) above, if the MTA deposits with the Trustee any Full Funding Grant Receipts while Section 5307 Grant Receipts are on deposit in the Interest Account or the Principal Account and the total amount of Grant Receipts exceeds the amount then required to be on deposit in the Interest Account and the Principal Account, then the Trustee shall substitute such Full Funding Grant Receipts, first in the Interest Account and then in the Principal Account, as available, for the Section 5307 Grant Receipts held therein (but in each case only to the extent that the resulting amounts on deposit in the Interest Account and the Principal Account do not fall below the respective amounts then required to be on deposit therein) and the Trustee shall release and remit such substituted Section 5307 Grant Receipts to the MTA, free and clear from the lien of this Indenture.

**Section 505. Debt Service Fund.** (A) The Trustee shall pay to the respective Paying Agents in Current Funds (i) out of the 2005 Capitalized Interest Account on or before each Interest Payment Date set forth in Section 507, the applicable amounts set forth in Section 507; (ii) out of any capitalized interest account established with respect to any other Series of Bonds, on or before each Interest Payment Date specified in the Supplemental Indenture authorizing such Series, the applicable amount set forth in such Supplemental Indenture; (iii) out of the Interest Account on or before each Interest Payment Date or redemption date, as applicable, for any of the Outstanding Bonds, the amount required for the interest payable on such date and not provided for pursuant to clause (i) or clause (ii) of this subsection; (iv) out of the Principal Account on or before each Principal Payment Date, an amount equal to the principal amount of the Outstanding Bonds, if any, which mature on such date; and (v) out of the Principal Account on or before each Principal Payment Date occasioned by redemption of Outstanding Bonds from Sinking Fund Installments, the amount required for the payment of the Redemption Price of such Outstanding Bonds then to be redeemed. Such amounts shall be paid to the Owners of the Outstanding Bonds by the Paying Agents for the aforesaid purposes on the due dates thereof. The Trustee shall also pay out of the Interest Account the accrued interest included in the purchase price of Outstanding Bonds purchased for retirement.

(B) Amounts in the Principal Account available for the payment of Sinking Fund Installments shall be applied to the purchase or redemption of Bonds as provided in this subsection.



(1) Amounts deposited to the credit of the Principal Account to be used in satisfaction of any Sinking Fund Installment may, and if so directed by the MTA shall, be applied by the Trustee, on or prior to the forty-fifth day next preceding the next Principal Payment Date on which a Sinking Fund Installment is due, to the purchase of Outstanding Bonds of the Series and maturity for which such Sinking Fund Installment was established. That portion of the purchase price attributable to accrued interest shall be paid from the Interest Account. All such purchases of Outstanding Bonds shall be made at prices not exceeding the applicable sinking fund Redemption Price of such Bonds plus accrued interest, and such purchases shall be made in such manner as the MTA shall determine. The principal amount of any Bonds so purchased shall be deemed to constitute part of the Principal Account until the Principal Payment Date on which such Sinking Fund Installment is due, for the purpose of calculating the amount on deposit in such Account.

(2) At any time up to the forty-fifth day next preceding the next Principal Payment Date on which a Sinking Fund Installment is due, the MTA may purchase with any available funds Outstanding Bonds for which such Sinking Fund Installment was established and surrender such Bonds to the Trustee at any time up to said date.

(3) After giving effect to the Outstanding Bonds purchased by the Trustee and Outstanding Bonds surrendered by the MTA as described in paragraphs (1) and (2) of this subsection (B), which shall be credited against the Sinking Fund Installment at the applicable sinking fund Redemption Price thereof, and as soon as practicable after the forty-fifth day next preceding the next Principal Payment Date on which a Sinking Fund Installment is due, the Trustee shall proceed to call for redemption on such Principal Payment Date Outstanding Bonds of the Series and maturity for which such Sinking Fund Installment was established in such amount as shall be necessary to complete the retirement of the unsatisfied portion of such Sinking Fund Installment. The Trustee shall pay out of the Principal Account (after transfers thereto from the Debt Service Reserve Fund, if required) to the appropriate Paying Agents, on or before the day preceding such redemption date, the Redemption Price required for the redemption of the Outstanding Bonds so called for redemption, and such amount shall be applied by such Paying Agents to such redemption.

(4) If the principal amount of Outstanding Bonds retired pursuant to this subsection through application of amounts in satisfaction of any Sinking Fund Installment shall exceed such Sinking Fund Installment, or in the event of the purchase or redemption from moneys other than from the Principal Account of Outstanding Bonds of any Series and maturity for which Sinking Fund Installments have been established, such excess or the principal amount of Outstanding Bonds so purchased or redeemed, as the case may be, shall be credited toward future scheduled Sinking Fund Installments either (i) in the order of their due dates or (ii) in such order as the MTA establishes in a certificate signed by an Authorized Officer and delivered to the Trustee not more than 45 days after the payment in excess of such Sinking Fund Installment.

(C) Whenever the amount held in the Redemption Account exceeds \$5,000,000, the Trustee shall apply the moneys held therein to the immediate redemption of Bonds then subject

to redemption at the option of the MTA (exclusive of any such Bonds maturing within 30 days or previously selected for redemption) and Bonds that will become subject to redemption at the option of the MTA within the next 30 days. The amounts held in the Redemption Account shall be applied to pay the Redemption Price of such Bonds. The accrued interest on such Bonds to the date fixed for their redemption shall be paid from the Interest Account; *provided, however*, that if the amount then held in the Interest Account is not sufficient to pay such accrued interest then, at the direction of the MTA expressed in a certificate of an Authorized Officer filed with the Trustee, such accrued interest may be paid from capitalized interest allocable to the interest on such Bonds payable on the next Interest Payment Date or from moneys in the Redemption Account. The Trustee shall redeem the principal amount of such Bonds that will reduce the balance in the Redemption Account to less than \$5,000. If the amount then held in the Redemption Account is not sufficient to redeem all of the Bonds then eligible for redemption by operation of the Redemption Account, then the Trustee shall proceed to select the Bonds to be redeemed from moneys then held in the Redemption Account by designating for redemption the Outstanding Bonds next to mature that are then eligible for redemption by operation of the Redemption Account (such designation to be made without priority of any Series over any other Series) and with respect to such Bonds having the same maturity date, the Bonds bearing interest at the highest interest rate, and with respect to such Bonds maturing on the same date and bearing interest at the same rate, at random in the manner provided in Section 404. The Trustee shall file with the MTA a notice specifying the Bonds called for redemption pursuant to this subsection.

(D) Moneys held in the Accounts of the Debt Service Fund shall be invested as provided in Section 603(A). Investment income earned as a result of such investment shall be retained in said Accounts.

(E) The amount, if any, deposited in the Interest Account from the proceeds of Bonds shall be set aside in such Account and applied to the payment of the interest on the Bonds with respect to which such proceeds were deposited in accordance with the provisions of the Supplemental Indenture authorizing the issuance of such Bonds.

**Section 506. Debt Service Reserve Fund.** (A) If on any Interest Payment Date or Principal Payment Date the aggregate amount to the credit of the Debt Service Fund shall be less than the amount required to pay such interest or principal due on the Outstanding Bonds (and any other net amounts payable by the MTA from the Interest Account pursuant to Section 205(A)(2)), the Trustee shall apply amounts from the Debt Service Reserve Fund to the extent necessary to cure such deficiency, in the following order of priority: first, to the credit of the Interest Account and then to the credit of the Principal Account.

(B) Whenever the amount to the credit of the Debt Service Reserve Fund shall exceed the Debt Service Reserve Requirement, the Trustee shall withdraw the amount of any such excess from the Debt Service Reserve Fund and (i) prior to \_\_\_\_\_, 2008, transfer such amount to the Construction Fund and (ii) on or after \_\_\_\_\_, 2008, allocate such amount to the various Funds and Accounts in the same manner as Full Funding Grant Receipts are allocated pursuant to Section 504(A); *provided, however*, that upon the written direction of an Authorized Officer, the Trustee shall promptly transfer all or any portion of the amount of such excess, as specified in such direction, to a refunding or defeasance escrow established pursuant to Section 1201.

(C) Whenever the amount to the credit of the Debt Service Reserve Fund (exclusive of any Debt Reserve Credit Facility as described in subparagraph (D)(1) of this Section) together with the amount to the credit of the Debt Service Fund, is sufficient to pay all Outstanding Bonds in accordance with their terms, the funds on deposit to the credit of the Debt Service Reserve Fund shall be transferred to the Debt Service Fund.

(D) The MTA may satisfy the Debt Service Reserve Requirement as set forth below:

(1) Notwithstanding the requirements of this Indenture, in lieu of the deposit into the Debt Service Reserve Fund the MTA may cause to be deposited therein, a surety bond, an insurance policy, a letter of credit or other credit facility (any such instrument referred to herein as a "*Debt Reserve Credit Facility*") which, in each case, shall be in an amount equal to the difference between the Debt Service Reserve Requirement and the sums then on deposit to the credit of the Debt Service Reserve Fund, if any. Any Debt Reserve Credit Facility deposited in the Debt Service Reserve Fund shall be payable to the Trustee for the equal and ratable benefit of all of the Owners of the Outstanding Bonds on any date on which moneys shall be required to be withdrawn from the Debt Service Reserve Fund and applied to the payment of the Principal of or interest on any Outstanding Bonds, which withdrawal cannot be met by any cash on deposit to the credit of the Debt Service Reserve Fund. The insurer providing such surety bond or insurance policy shall be an insurer whose municipal bond insurance policies insuring the payment, when due, of the principal of and interest on municipal bond issues results in such issues being rated in either of the two highest rating categories by each of the Rating Services, or any insurer who holds either of the two highest policyholder ratings accorded insurers by each of the Rating Services. The letter of credit issuer shall be a bank or trust company and any other credit facility issuer shall be a company or other legal entity which is rated in either of the two highest rating categories by each of the Rating Services, and the letter of credit or other credit facility itself shall be rated in either of the two highest categories of each of such Rating Services. If a disbursement is made pursuant to any Debt Reserve Credit Facility pursuant to this subparagraph, the MTA shall be obligated either (i) to reinstate the maximum limits of such Debt Reserve Credit Facility in accordance with the terms thereof or (ii) to deposit to the credit of the Debt Service Reserve Fund, funds in the amount of the disbursement made under such Debt Reserve Credit Facility, or a combination of such alternatives, as shall provide that the amount to the credit of the Debt Service Reserve Fund equals the Debt Service Reserve Requirement. Pursuant to a certificate of an Authorized Officer filed with the Trustee, the MTA may direct the Trustee to withdraw amounts deposited from Full Funding Grant Receipts into the Debt Service Reserve Fund to make payments necessary to reinstate the maximum limits of a Debt Reserve Credit Facility, which certificate may direct the use of such amounts for that purpose prior to the use for any other purpose. If disbursements have been made pursuant to more than one Debt Reserve Credit Facility, such payments shall be made on a pro-rata basis.

(2) In the event that any Debt Reserve Credit Facility deposited with the Trustee as provided in subparagraph (1) of this subsection is withdrawn by the issuer thereof or expires and is not renewed, the MTA shall fund the resulting deficiency with respect to the Debt Service Reserve Requirement (a) by depositing in the Debt Service

Reserve Fund a new Debt Reserve Credit Facility meeting the requirements of subparagraph 506(D)(1) or (b) by funding the Debt Service Reserve Fund from Full Funding Grant Receipts as provided in Section 504.

**Section 507. 2005 Capitalized Interest Account.** On the date of issuance of the 2005 Bonds, the Trustee shall deposit into the 2005 Capitalized Interest Account the amount set forth in clause (ii) of Section 203(I). The moneys in the 2005 Capitalized Interest Account shall be used by the Trustee to pay the interest on the 2005 Bonds on the following Interest Payment Dates and in the following amounts:

<u>Interest Payment Date</u>	<u>Amount</u>
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The 2005 Capitalized Interest Account shall be invested as provided in Section 603(A). Investment income earned as a result of such investment shall be retained in the 2005 Capitalized Interest Account. Any moneys remaining in the 2005 Capitalized Interest Account on \_\_\_\_\_, 2008 shall be transferred to the Interest Account.

**Section 508. Rebate Fund.** (A) In the event that the MTA shall invest the proceeds of Bonds or other moneys in any investments that generate income that must be rebated or paid to the United States of America pursuant to Section 148(f) of the Code and with respect to the Bonds, an amount equal to such income shall be deposited annually in the Rebate Fund, by January 15 of each year or as soon thereafter as possible.

(B) The MTA shall prepare and file with the Trustee a certificate of an Authorized Officer specifying the amount to be deposited in the Rebate Fund pursuant to subsection (A) of this Section and directing the Trustee to withdraw such amount from the Construction Fund or to provide from such deposit from the application of Full Funding Grant Receipts pursuant to clause Fifth of Section 504(A). In the absence of such direction, the Trustee shall withdraw such amount from the Construction Fund.

(C) At the direction of the MTA expressed in a certificate of an Authorized Officer filed with the Trustee, moneys in the Rebate Fund shall be applied to pay such amounts as are required to be paid to the United States of America pursuant to Section 148(f) of the Code. The Trustee shall withdraw from the Rebate Fund and deposit into any one or more of the Accounts of the Debt Service Fund the amounts stated in a certificate of an Authorized Officer filed with the Trustee and directing such withdrawal, provided that such certificate shall state that upon such withdrawal the sum remaining in the Rebate Fund will be sufficient to pay any rebate amount expected to be due the United States of America during the next ensuing twelve months with respect to the Bonds.

### **Section 509. Full Funding Grant Receipts Construction Fund.**

(A) Prior to the transfer of Full Funding Grant Receipts into the Full Funding Grant Receipts Construction Fund as provided in Section 504, the MTA shall deliver to the Trustee a certificate of an Authorized Officer stating that the total remaining amount the MTA expects to receive under the Full Funding Grant Agreement, after the transfer of funds into the Full Funding Grant Receipts Construction Fund, will be equal to at least [105]% of the sum of the principal amount of the Outstanding Bonds and the interest payable on the Outstanding Bonds, assuming such Bonds are paid on their stated maturity dates.

(B) The Trustee shall, during and upon completion of construction of the Project, make payments from the Full Funding Grant Receipts Construction Fund in the amounts, at the times, in the manner, and on the other terms and conditions set forth in this Section. Before any such payment shall be made, the MTA shall file with the Trustee:

(1) its requisition therefor, stating in respect of each payment to be made: (a) the name of the person, firm or corporation to whom payment is due, (b) the amount to be paid, and (c) in reasonable detail the purpose for which the obligation was incurred; and

(2) its certificate attached to the requisitions certifying: (a) that obligations in the stated amounts have been incurred by the MTA in or about the construction of the Project, and that each item thereof is a proper charge against the Full Funding Grant Receipts Construction Fund and is a proper Cost of Construction and has not been paid, (b) that there has not been filed with or served upon the MTA notice of any lien, right to lien, or attachment upon, or claim affecting the right to receive payment of, any of the moneys payable under such requisition, or if any such lien, attachment or claim has been filed or served upon the MTA, that such lien, attachment or claim has been released or discharged, and (c) that such requisition contains no item representing payment on account of any retained percentages which the MTA is at the date of such certificate entitled to retain.

Upon receipt of each such requisition and accompanying certificates the Trustee shall transfer from the Full Funding Grant Receipts Construction Fund to the credit of a special account in the name of the MTA, an amount equal to the total of the amounts to be paid as set forth in such requisition, the amounts in such special account to be held solely for the payment of the obligations set forth in such requisition. In making such transfer, the Trustee may rely upon such requisition and accompanying certificates. Each such obligation shall be paid by check or wire transfer signed by an Authorized Officer drawn on such special account to the order of the Person named in and in accordance with the requisition. Moneys deposited to the credit of such special account shall be deemed to be a part of the Full Funding Grant Receipts Construction Fund until paid out as above provided. If for any reason the MTA should decide prior to the payment of any item in a requisition to stop payment of such item, an Authorized Officer shall give notice of such decision to the Trustee and thereupon the Trustee shall transfer the amount of such item from such special account to the Full Funding Grant Receipts Construction Fund.

**Section 510. Creation of Additional Accounts and Sub-Accounts.** The Trustee shall, at the written request of the MTA, establish such additional Accounts within any of the Funds established under this Indenture, and Sub-Accounts within any of the Accounts established under this Indenture, as shall be specified in such written request, for the purpose of enabling the MTA to identify or account for more precisely the sources, timing and amounts of transfers or deposits into such Funds, Accounts and Sub-Accounts, the amounts on deposit in or credited to such Funds, Accounts or Sub-Accounts as of any date or dates of calculation, and the sources, timing and amounts of transfers, disbursements or withdrawals from such Funds, Accounts or Sub-Accounts; but the establishment of any such additional Accounts or Sub-Accounts shall not alter or modify in any manner or to any extent any of the requirements of this Indenture with respect to the deposit or use of moneys in any Fund, Account or Sub-Account established hereunder.

**Section 511. Subordinated Indebtedness.** Nothing in this Indenture shall prohibit or prevent, or be deemed or construed to prohibit or prevent, the MTA (to the extent now or hereafter permitted by law) from issuing bonds, certificates or other evidences of indebtedness payable as to principal and interest from Grant Receipts, but only if such indebtedness is junior and subordinate in all respects to any and all Bonds issued and Outstanding under this Indenture.

## ARTICLE VI

### DEPOSITARIES, SECURITY FOR DEPOSITS AND INVESTMENTS OF FUNDS

**Section 601. Depositaries.** All moneys held by the Trustee under the provisions of this Indenture may be deposited with one or more Depositaries selected by an Authorized Officer in the name of and in trust for the Trustee. All moneys held by the MTA under this Indenture shall be deposited in one or more Depositaries (selected by an Authorized Officer) in the name of the MTA. All moneys deposited under the provisions of this Indenture with the Trustee, the MTA or any Depositary shall be held in trust and applied only in accordance with the provisions of this Indenture, and each of the Funds, Accounts and Sub-Accounts established by this Indenture shall be a trust fund.

**Section 602. Deposits.** (A) All moneys held by any Depositary under this Indenture may be placed on demand or time deposit, as directed by an Authorized Officer, provided that such deposits shall permit the moneys so held to be available for use when needed. Any such deposit may be made in the commercial banking department of any Fiduciary which may honor checks and drafts on such deposit as if it were not a Fiduciary. All moneys held by a Fiduciary may be deposited in its banking department on demand or, if and to the extent directed by an Authorized Officer, on time deposit, provided that such moneys on deposit be available for use when needed. Such Fiduciary shall allow and credit on such moneys such interest, if any, as it customarily allows upon similar funds of similar size.

(B) All moneys on deposit to the credit of the Debt Service Fund and the Debt Service Reserve Fund not otherwise secured by deposit insurance shall be continuously and fully secured by the Trustee for the benefit of the MTA and the Owners of the Bonds by lodging with the Trustee as collateral security, Government Obligations having a market value (exclusive of accrued interest) of not less than the amount of such moneys. All moneys on deposit to the credit of the Construction Fund not otherwise secured by deposit insurance shall be continuously

and fully secured by the appropriate Depository for the benefit of the MTA and the Owners of the Bonds by lodging with the appropriate Depository as collateral security, Government Obligations having a market value (exclusive of accrued interest) not less than the amount of such moneys. All other moneys held for the MTA under this Indenture shall be continuously and fully secured for the benefit of the MTA and the Owners of the Bonds in the same manner as provided by the MTA for similar funds of the MTA.

(C) All moneys deposited with the Trustee and each Depository shall be credited to the particular Fund, Account or Sub-Account to which such moneys belong.

**Section 603. Investment of Certain Moneys.** (A) Moneys held in the Debt Service Fund and its Accounts and the Debt Service Reserve Fund and its Accounts and moneys held in the 2005 Capitalized Interest Account shall be invested and reinvested by the Trustee at the oral direction of an Authorized Officer promptly confirmed in writing to the fullest extent practicable in Investment Securities which mature no later than necessary to provide moneys when needed for payments to be made from such Funds or Accounts. In the event that no such directions are received by the Trustee, such amounts shall be invested in money market funds described in subparagraph (vi) of the definition of Investment Securities, pending receipt of investment directions. The Trustee may make any and all such investments through its own investment department or that of its affiliates or subsidiaries. Moneys held in any separate, segregated account of the Construction Fund held by the MTA in a Depository may be invested and reinvested by the MTA at the direction of an Authorized Officer in Investment Securities which mature no later than necessary to provide moneys when needed for payments to be made from such Accounts.

(B) Moneys held in two or more Funds, Accounts or Sub-Accounts may be jointly invested in one or more Investment Securities, provided that such investment complies with all the terms and conditions hereof relating to the investment of moneys in such Funds, Accounts or Sub-Accounts, as the case may be, and the MTA maintains books and records as to the allocation of such investment as among such Funds, Accounts or Sub-Accounts. Investment income from investments held in the various Funds, Accounts and Sub-Accounts shall remain in and be a part of the respective Funds, Accounts and Sub-Accounts in which such investments are held, except as otherwise provided in this Indenture.

(C) All investments made under this Indenture shall be consistent with the expectations expressed in any arbitrage certificate executed on behalf of the MTA and filed with the Trustee with respect to any Series of Bonds issued under this Indenture.

**Section 604. Valuation and Sale of Investments.** (A) Investment Securities in any Fund, Account or Sub-Account created under the provisions of this Indenture shall be deemed at all times to be part of such Fund, Account or Sub-Account and any profit realized from the liquidation of such investment shall be credited to such Fund, Account or Sub-Account and any loss resulting from liquidation of such investment shall be charged to such Fund, Account or Sub-Account.

(B) Valuations of Investment Securities held in the Funds, Accounts and Sub-Accounts established hereunder shall be made by the Trustee as often as may be necessary to

determine the amounts held therein, except that valuations of Government Obligations held in the Debt Service Fund and its Accounts and the Debt Service Reserve Fund shall be made at least once each year on such dates as shall be determined by the Trustee. In computing the amounts in such Funds, Accounts and Sub-Accounts, Investment Securities therein shall be valued as provided in subsection (C) of this Section.

(C) The value of Investment Securities shall mean the fair market value thereof, *provided, however*, that all SLG's shall be valued at par and those obligations which are redeemable at the option of the holder shall be valued at the price at which such obligations are then redeemable. The Trustee shall determine the fair market value based on accepted industry standards and from accepted industry providers. Accepted industry providers shall include, but are not limited to, pricing services provided by Financial Times Interactive Data Corporation, Merrill Lynch, Citibank, Bear Stearns or Lehman Brothers.

(D) Except as otherwise provided in this Indenture, the Trustee at the direction of an Authorized Officer shall sell at the best price reasonably obtainable, or present for redemption, any Investment Security held in any Fund, Account or Sub-Account held by the Trustee whenever it shall be necessary to provide moneys to meet any payment or transfer from such Fund, Account or Sub-Account as the case may be. The Trustee and the MTA shall not be liable or responsible for making any such investment in the manner provided above or for any loss resulting from any such investment.

## ARTICLE VII

### PARTICULAR COVENANTS AND REPRESENTATIONS OF THE MTA

**Section 701. Authorization for Indenture.** The MTA has ascertained and hereby determines and declares that the execution and delivery of this Indenture is necessary to meet the public transportation needs of the residents of the service area of the MTA, that each and every act, matter, thing or course of conduct as to which provision is made herein is necessary or convenient in order to carry out and effectuate such purposes of the MTA and to carry out its powers and is in furtherance of the public benefit, safety and welfare and that each and every covenant or agreement herein contained and made is necessary, useful or convenient in order to better secure the Bonds and are contracts or agreements necessary, useful or convenient to carry out and effectuate the purposes of the MTA.

**Section 702. Indenture to Constitute Contract.** In consideration of the purchase and acceptance of Bonds by those who shall hold the same from time to time, the provisions of this Indenture and any Supplemental Indenture shall be a part of the contract of the MTA with the owners of Bonds and shall be deemed to be and shall constitute a contract between the MTA, the Trustee, any Bond Insurer, any Credit Bank and the owners from time to time of the Bonds. The MTA covenants and agrees with the owners of Bonds, the Trustee, any Bond Insurer and any Credit Bank that it will faithfully perform all of the covenants and agreements contained in this Indenture and in the Bonds.

**Section 703. Payment of Bonds.** Subject always to the condition that any obligation of the MTA hereunder shall only be payable from Grant Receipts and other moneys, securities and



funds pledged pursuant to the Indenture, the MTA shall duly and punctually pay or cause to be paid the principal of every Bond and the interest thereon, at the dates and places and in the manner mentioned in the Bonds, according to the true intent and meaning thereof.

**Section 704. Extension of Payment of Bonds.** If the maturity of any Bond or installment of interest shall be extended pursuant to the written consent of the Owner thereof, such Bond or installment of interest shall not be entitled, in case of any default under this Indenture, to the benefit of this Indenture or to payment out of Grant Receipts or Funds, Accounts and Sub-Accounts established by this Indenture or moneys held by Fiduciaries or Depositories (except moneys held in trust for the payment of such Bond or installment of interest) until the prior payment of the principal of all Bonds Outstanding the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extended claims for interest. Nothing herein shall be deemed to limit the right of the MTA to issue Additional Bonds and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

**Section 705. Offices for Servicing Bonds.** The MTA shall at all times maintain one or more Paying Agents and Registrars in Los Angeles, California or in New York, New York, where Bonds may be presented for payment and where Bonds may be presented for registration, transfer or exchange.

**Section 706. Further Assurance.** At any and all times the MTA shall, as far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further indentures, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, pledging, assigning and confirming, all and singular, the rights, Grant Receipts and other moneys, securities and funds hereby pledged or assigned, or which the MTA may become bound to pledge or assign.

**Section 707. Power to Issue Bonds and Pledge Grant Receipts.** The MTA is duly authorized under all applicable laws to issue the Bonds and to execute and deliver this Indenture and to pledge the Grant Receipts and other moneys, securities and funds pledged by this Indenture and to grant the lien granted by this Indenture thereon in the manner and to the extent provided in this Indenture. The Grant Receipts and other moneys, securities and funds so pledged, and subject to such lien, are and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge and lien created by this Indenture, and all action on the part of the MTA to that end has been and will be duly and validly taken. The Bonds and the provisions of this Indenture are and will be valid and legally enforceable obligations of the MTA in accordance with their terms and the terms of this Indenture, except to the extent enforceability may be limited by bankruptcy, insolvency and other laws affecting conditions, rights or remedies and the availability of equitable remedies generally. The MTA covenants that upon the date of issuance of any of the Bonds, all conditions, acts and things required by the Constitution and laws of the State of California and this Indenture to exist, to have happened and to have been performed precedent to or in the issuance of such Bonds shall exist, have happened and have been performed. The MTA shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of and lien on the Grant Receipts and other moneys, securities and funds pledged under this Indenture and all the rights of the Owners under this Indenture against all claims and demands.

**Section 708. Indebtedness and Liens.** The MTA shall not issue any bonds or other evidences of indebtedness or incur other obligations, other than the Bonds, Qualified Swap or Cap Agreements and Subordinated Indebtedness, which are secured by a pledge of or lien on the Grant Receipts or the moneys, securities or funds held or set aside by the MTA or by the Trustee under this Indenture, and shall not, except as expressly authorized in this Indenture, create or cause to be created any lien or charge on the Grant Receipts or such moneys, securities or funds; *provided, however*, that nothing contained in this Indenture shall prevent the MTA from issuing evidences of indebtedness payable from, or secured by the pledge of, Grant Receipts to be derived on and after such date as the pledge of Grant Receipts provided in this Indenture shall be discharged and satisfied as provided in Section 1201.

**Section 709. Construction of Project.** The MTA shall forthwith proceed to complete the construction of the Project in conformity with the Full Funding Grant Agreements and all requirements of all governmental authorities having jurisdiction, and in accordance with and as more fully shown on the plans therefor, and the specifications relative thereto, subject to such modifications of such plans and specifications as may be approved from time to time by the MTA and which are permitted under the provisions of the Full Funding Grant Agreements.

**Section 710. Payment of Lawful Charges.** The MTA shall pay or cause to be discharged, or will make adequate provision to satisfy and discharge, all judgments and court orders, and all lawful claims and demands for labor, materials, supplies or other objects which, if unsatisfied or unpaid, might by law become a lien upon the Grant Receipts; *provided, however*, that nothing in this Section contained shall require the MTA to pay or cause to be discharged, or make provision for, any such lien or charge, so long as the validity thereof shall be contested in good faith and by appropriate legal proceedings.

**Section 711. Full Funding Grant Agreement.** The MTA shall comply with all of the provisions of each Full Funding Grant Agreement so as to preserve at all times its right to receive Full Funding Grant Receipts. The MTA shall file promptly with the Trustee a copy of each Full Funding Grant Agreement and each amendment thereof or supplement thereto. The MTA shall not unilaterally terminate, or enter any agreement to terminate, any Full Funding Grant Agreement. The MTA will promptly request any payment for costs or any reimbursement for costs to which the MTA is entitled under any Full Funding Grant Agreement. The MTA will promptly pay over to the Trustee all Full Funding Grant Receipts for application in accordance with this Indenture.

**Section 712. Accounts and Reports.** (A) The MTA shall keep proper books of record and account (separate from all other records and accounts) in which complete and correct entries shall be made of its transactions relating to the Project, Grant Receipts and the Funds, Accounts and Sub-Accounts established by this Indenture and any Supplemental Indenture, and which, shall at all reasonable times be available for the inspection of the Trustee and the Owners of not less than 25 percent in principal amount of Outstanding Bonds or their representatives duly authorized in writing. The MTA further covenants that it will keep an accurate record of the Grant Receipts received and of the payment thereof to the Trustee.

(B) The MTA covenants that not later than February 1 of each year it will cause an independent audit to be made of its books and accounts for the preceding Fiscal Year, including

its books and accounts relating to the Grant Receipts and the construction of the Project. Promptly thereafter reports of each such annual audit, signed by an Accountant, shall be mailed by the MTA to the Trustee and the Trustee shall make such reports available for inspection by the Owners of the Bonds.

**Section 713. Tax Covenants.**

(A) Special Definitions. When used in this Section, the following terms have the following meanings:

“Computation Date” has the meaning set forth in section 1.148-1(b) of the Tax Regulations.

“Gross Proceeds” means any proceeds as defined in section 1.148-1(b) of the Tax Regulations (referring to sales, investment and transferred proceeds), and any replacement proceeds as defined in section 1.148-1(c) of the Tax Regulations, of the Bonds.

“Investment” has the meaning set forth in section 1.148-1(b) of the Tax Regulations.

“Nonpurpose Investment” means any investment property, as defined in section 148(b) of the Code, in which Gross Proceeds of the Bonds are invested and that is not acquired to carry out the governmental purposes of the Bonds.

“Rebate Amount” has the meaning set forth in section 1.148-1(b) of the Tax Regulations.

“Yield” of

- (i) any Investment has the meaning set forth in section 1.148-5 of the Tax Regulations; and
- (ii) the Bonds has the meaning set forth in section 1.148-4 of the Tax Regulations.

(B) Not to Cause Interest to Become Taxable. The MTA shall not use, permit the use of, or omit to use Gross Proceeds or any other amounts (or any property the acquisition, construction or improvement of which is to be financed directly or indirectly with Gross Proceeds) in a manner that if made or omitted, respectively, would cause the interest on any of the Bonds to become includable in the gross income, as defined in section 61 of the Code, of the owner thereof for federal income tax purposes. Without limiting the generality of the foregoing, unless and until the MTA receives a written opinion of Bond Counsel to the effect that failure to comply with such covenant will not adversely affect the exemption from federal income tax of the interest on any Bond, the MTA shall comply with each of the specific covenants in this Section.

(C) No Private Use or Private Payments. Except as would not cause any Bond to become a “private activity bond” within the meaning of section 141 of the Code and the Tax

Regulations and rulings thereunder, the MTA shall at all times prior to the payment and cancellation of the last Bond to be paid and canceled:

(1) use its best efforts to ensure that the MTA exclusively own, operate and possess all property the acquisition, construction or improvement of which is to be financed or refinanced directly or indirectly with Gross Proceeds of the Bonds, and not use or permit the use of such Gross Proceeds (including all contractual arrangements with terms different than those applicable to the general public) or any property acquired, constructed or improved with such Gross Proceeds in any activity carried on by any person or entity (including the United States or any agency, department and instrumentality thereof) other than a state or local government, unless such use is solely as a member of the general public; and

(2) not directly or indirectly impose or accept any charge or other payment by any person or entity who is treated as using Gross Proceeds of the Bonds or any property the acquisition, construction or improvement of which is to be financed or refinanced directly or indirectly with such Gross Proceeds, other than taxes of general application within the jurisdiction of the MTA or interest earned on investments acquired with such Gross Proceeds pending application for their intended purposes.

(D) No Private Loan. Except as would not cause any Bond to become a “private activity bond” within the meaning of section 141 of the Code and the Tax Regulations and rulings thereunder, the MTA shall not use Gross Proceeds of any Bond to make or finance loans to any person or entity other than a state or local government. For purposes of the foregoing covenant, such Gross Proceeds are considered to be “loaned” to a person or entity if: (a) property acquired, constructed or improved with such Gross Proceeds is sold or leased to such person or entity in a transaction that creates a debt for federal income tax purposes; (b) capacity in or service from such property is committed to such person or entity under a take-or-pay, output or similar contract or arrangement; or (c) indirect benefits of such Gross Proceeds, or burdens and benefits of ownership of any property acquired, constructed or improved with such Gross Proceeds, are otherwise transferred in a transaction that is the economic equivalent of a loan.

(E) Not to Invest at Higher Yield. Except as would not cause any Bond to become an “arbitrage bond” within the meaning of section 148 of the Code and the Tax Regulations and rulings thereunder, the MTA shall not at any time prior to the final maturity of the Bonds directly or indirectly invest Gross Proceeds in any Investment, if as a result of such investment the Yield of any Investment acquired with Gross Proceeds, whether then held or previously disposed of, would materially exceed the Yield of such Bond within the meaning of said section 148.

(F) Not Federally Guaranteed. Except to the extent permitted by section 149(b) of the Code and the Tax Regulations and rulings thereunder, the MTA shall not take or omit to take any action that would cause any Bond to be “federally guaranteed” within the meaning of section 149(b) of the Code and the Tax Regulations and rulings thereunder.

(G) Information Report. The MTA shall timely file any information required by section 149(e) of the Code with respect to the Bonds with the Secretary of the Treasury on Form 8038-G or such other form and in such place as the Secretary may prescribe.

(H) Rebate of Arbitrage Profits. Except to the extent otherwise provided in section 148(f) of the Code and the Tax Regulations and rulings thereunder:

(i) The MTA shall account for all Gross Proceeds (including all receipts, expenditures and investments thereof) on its books of account separately and apart from all other funds (and receipts, expenditures and investments thereof) and shall retain all records of accounting for at least eight years after the day on which the last Bond is discharged. However, to the extent permitted by law, the MTA may commingle Gross Proceeds of the Bonds with its other money, provided that the MTA separately accounts for each receipt and expenditure of Gross Proceeds and the obligations acquired therewith.

(ii) Not less frequently than each Computation Date, the MTA shall calculate the Rebate Amount in accordance with rules set forth in section 148(f) of the Code and the Tax Regulations and rulings thereunder. The MTA shall maintain a copy of the calculation with its official transcript of proceedings relating to the issuance of the Bonds until eight years after the final Computation Date.

(iii) In order to assure the excludability of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes, the MTA shall pay or cause the Trustee to pay on its behalf to the United States the amount that when added to the future value of previous rebate payments made for the Bonds equals (A) in the case of a Final Computation Date as defined in section 1.148-3(e)(2) of the Tax Regulations, one hundred percent (100%) of the Rebate Amount on such date; and (B) in the case of any other Computation Date, ninety percent (90%) of the Rebate Amount on such date. In all cases, such rebate payments shall be made by the MTA at the times and in the amounts as are or may be required by section 148(f) of the Code and the Tax Regulations and rulings thereunder, and shall be accompanied by Form 8038-T or such other forms and information as is or may be required by section 148(f) of the Code and the Tax Regulations and rulings thereunder for execution and filing by the MTA.

(iv) The MTA shall exercise reasonable diligence to assure that no errors are made in the calculations and payments required by paragraphs (i) and (ii) above, and if an error is made, to discover and promptly correct such error within a reasonable amount of time thereafter (and in all events within one hundred eighty (180) days after discovery of the error), including payment to the United States of any additional Rebate Amount owed to it, interest thereon, and any penalty imposed under section 1.148-3(h) or other provision of the Tax Regulations.

(I) Not to Divert Arbitrage Profits. Except to the extent permitted by section 148 of the Code and the Tax Regulations and rulings thereunder, the MTA shall not, at any time prior to the final maturity of the Bonds, enter into any transaction that reduces the amount required to be paid to the United States pursuant to paragraph (H) of this Section because such transaction results in a smaller profit or a larger loss than would have resulted if the transaction had been at arm's length and had the Yield on the Bonds not been relevant to either party.

(J) Bonds Not Hedge Bonds.

(1) The MTA represents that the Bonds neither are nor will become “hedge bonds” within the meaning of section 149(g) of the Code.

(2) Without limitation of paragraph (I) above, with respect to the Bonds, (A) on the date of issuance of the Bonds, the MTA reasonably expects that at least 85% of the spendable proceeds of the Bonds will be expended within the three-year period commencing on such date of issuance, and (B) no more than 50% of the proceeds of the Bonds will be invested in Nonpurpose Investments having a substantially guaranteed yield for a period of four years or more.

(K) Elections. The MTA hereby directs and authorizes any Authorized Officer to make elections permitted or required pursuant to the provisions of the Code or the Tax Regulations, as such Authorized MTA Representative (after consultation with Bond Counsel) deems necessary or appropriate in connection with the Bonds, in the Tax Certificate or similar or other appropriate certificate, form or document.

Notwithstanding any provision of this Section 713, if the MTA shall receive a written opinion of Bond Counsel to the effect that any action required under this Section 713 hereof is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest on the Bonds pursuant to section 103 of the Code, the MTA and the Trustee may rely conclusively on such opinion in complying with the provisions hereof, and the covenants hereunder shall be deemed to be modified to that extent.

**Section 714. [Reserved].**

**Section 715. FTA Funds.** (A) The MTA shall comply with all applicable laws of the United States of America and regulations of the FTA relating to the administration and disbursement of federal funds under 49 United States Code Section 5307 and Section 5309 that are to be provided for the Project in order to at all times facilitate the prompt receipt by the MTA of Grant Receipts. All of such moneys constituting Grant Receipts, when received by the MTA, shall be deposited promptly with the Trustee.

(B) The MTA shall use its best efforts to obtain or cause to be available for the funding of costs of the Project and related financing costs, all moneys identified under Attachment 3 of the Full Funding Grant Agreement. Moneys received by the MTA in aid of financing the Project that are designated as local share funds in Attachment 3 shall be paid to the Trustee for deposit into any one or more of the Funds and Accounts held by the Trustee in such amounts as shall be set forth in a certificate of an Authorized Officer filed with the Trustee.

**Section 716. 2005 Bonds Paid by Bond Insurer to Remain Outstanding.** Notwithstanding anything in this Indenture to the contrary, in the event that the principal of or interest on the 2005 Bonds shall be paid by the Bond Insurer pursuant to the Bond Insurance Policy, the 2005 Bonds shall remain Outstanding for all purposes, shall not be deemed to be defeased or otherwise satisfied and not considered paid by the MTA, and the assignment and pledge of the Trust Estate and all covenants, agreements and other obligations of the MTA to the

Owners of the 2005 Bonds shall continue to exist and shall run to the benefit of the Bond Insurer, and the Bond Insurer shall be subrogated to the rights of such Owners.

## ARTICLE VIII

### REMEDIES OF OWNERS

**Section 801. Events of Default.** Each of the following events is hereby declared an “*Event of Default*”:

(1) if a default shall occur in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity or by call for redemption or otherwise;

(2) if a default shall occur in the due and punctual payment of interest on any Bond, when and as such interest shall become due and payable;

(3) if a default shall occur in the performance or observance by the MTA of any other of the covenants, agreements or conditions in this Indenture or in the Bonds contained, and such default shall continue for a period of 60 days after written notice thereof to the MTA by the Trustee or after written notice thereof to the MTA and to the Trustee by the Owners of not less than a majority in principal amount of the Outstanding Bonds; or

(4) if the MTA shall file a petition seeking a composition of indebtedness under the federal bankruptcy laws or under any other applicable law or statute of the United States of America or of the State of California.

**Section 802. Accounting and Examination of Records after Default.** (A) The MTA covenants that if an Event of Default shall have happened and shall not have been remedied, the books of record and account of the MTA and all other records relating to the Grant Receipts shall at all times be subject to the inspection and use of the Trustee and of its agents and attorneys.

(B) The MTA covenants that if an Event of Default shall have happened and shall not have been remedied, the MTA, upon demand of the Trustee, will account, as if it were the trustee of an express trust, for all and other moneys, securities and funds held by the MTA pursuant to the terms of this Indenture for such period as shall be stated in such demand.

**Section 803. Application of Grant Receipts and Other Moneys after Default.** (A) The MTA covenants that if an Event of Default shall happen and shall not have been remedied, the MTA, upon demand of the Trustee, shall pay over or cause to be paid over to the Trustee (i) forthwith, all moneys, securities and funds then held by the MTA in any Fund, Account or Sub-Account pursuant to the terms of this Indenture, and (ii) all Grant Receipts as promptly as practicable after receipt thereof.

(B) During the continuance of an Event of Default, the Trustee shall apply such moneys, securities, funds and Grant Receipts and the income therefrom as follows and in the following order:

(1) to the payment of the reasonable and proper charges and expenses of the Trustee, including the reasonable fees and expenses of counsel employed by it pursuant to this Article;

(2) to the payment of the principal of, Redemption Price of and interest on the Bonds then due, as follows:

First: to the payment to the persons entitled thereto of all installments of interest then due on the Bonds in the order of the maturity of such installments, together with accrued and unpaid interest on the Bonds theretofore called for redemption, and, if the amount available shall not be sufficient to pay in full any installment or installments of interest maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: to the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Bonds which shall have become due, whether at maturity or by call for redemption in the order of their due dates, and, if the amount available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

(C) If and whenever all overdue installments of principal and Redemption Price of and interest on all Bonds, together with the reasonable and proper charges and expenses of the Trustee, and all other overdue sums payable by the MTA under this Indenture, including the overdue principal and Redemption Price of and accrued unpaid interest on all Bonds held by or for the account of the MTA, or provision satisfactory to the Trustee shall be made for such payment, and all defaults under this Indenture or the Bonds shall be made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, the Trustee shall pay over to the MTA all moneys, securities and funds then remaining unexpended in the hands of the Trustee (except moneys, securities and funds deposited or pledged, or required by the terms of this Indenture to be deposited or pledged, with the Trustee), and thereupon the MTA, the Trustee and the Owners shall be restored, respectively, to their former positions and rights under this Indenture. No such payment over to the MTA by the Trustee nor such restoration of the MTA and the Trustee to their former positions and rights shall extend to or affect any subsequent default under this Indenture or impair any right consequent thereon.

**Section 804. Proceedings Brought by Trustee.** (A) If an Event of Default shall happen and shall not have been remedied, then and in every such case, the Trustee, by its agents and attorneys, may proceed, and upon identical written request of the Owners of not less than a majority in principal amount of the Bonds Outstanding and upon being indemnified to its satisfaction shall proceed, to protect and enforce its rights and the rights of the Owners of the Bonds under this Indenture forthwith by a suit or suits in equity or at law, whether for the specific performance of any covenant herein contained, or in aid of the execution of any power herein granted, or for an accounting against the MTA as if the MTA were the trustee of an express trust, or in the enforcement of any other legal or equitable right as the trustee, being



advised by counsel, shall deem most effectual to enforce any of its rights or to perform any of its duties under this Indenture.

(B) All rights of action under this Indenture may be enforced by the Trustee without the possession of any of the Bonds or the production thereof in any suit or other proceeding, and any such suit or other proceeding instituted by the Trustee shall be brought in its name.

(C) All actions against the MTA under this Indenture shall be brought in a state or federal court located in the County of Los Angeles, California.

(D) The Owners of not less than a majority in principal amount of the Bonds at the time Outstanding may direct the time, method and place of conducting any proceedings to be taken in connection with the enforcement of the terms and conditions of this Indenture or for the enforcement of any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, *provided* that the Trustee shall have the right to decline to follow any such direction if the Trustee shall be advised by counsel that the action or proceeding so directed may not lawfully be taken, or if the Trustee in good faith shall determine that the action or proceeding so directed would involve the Trustee in personal liability or be unjustly prejudicial to the Owners not parties to such direction.

(E) Upon commencing any suit at law or in equity or upon commencement of other judicial proceedings by the Trustee to enforce any right under this Indenture, the Trustee shall be entitled to exercise any and all rights and powers conferred in this Indenture and provided to be exercised by the Trustee upon the occurrence of any Event of Default.

(F) Regardless of the happening of an Event of Default, the Trustee shall have power, but unless requested in writing by the Owners of a majority in principal amount of the Bonds then Outstanding, and furnished with reasonable security and indemnity, shall be under no obligation, to institute and maintain such suits and proceedings as may be necessary or expedient to prevent any impairment of the security under this Indenture and to preserve or protect its interests and the interest of the Owners.

**Section 805. Restriction on Owners' Action.** (A) No Owner of any Bond shall have any right to institute any suit or proceeding at law or in equity for the enforcement or violation of any provision of this Indenture or the execution of any trust under this Indenture or for any remedy under this Indenture, unless such Owner shall have previously given to the Trustee written notice of the happening of an Event of Default, as provided in this Article, and the Owners of at least a majority in principal amount of the Bonds then Outstanding shall have filed a written request with the Trustee, and shall have offered it reasonable opportunity either to exercise the powers granted in this Indenture or by the laws of California or to institute such suit or proceeding in its own name, and unless such Owners shall have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or failed to comply with such request within 60 days after receipt by it of such notice, request and offer of indemnity, it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by its or their action to affect, disturb or prejudice the pledge created by this Indenture or to enforce any right under this Indenture, except in the manner herein provided; and that all proceedings at

law or in equity to enforce any provision of this Indenture shall be instituted, had and maintained in the manner provided in this Indenture and for the equal benefit of all Owners of the Outstanding Bonds, subject only to the provisions of Section 704.

(B) Nothing in this Indenture or in the Bonds contained shall affect or impair the obligation of the MTA, which is absolute and unconditional, to pay at the respective dates of maturity and places therein expressed the principal of and interest on the Bonds to the respective Owners thereof, or affect or impair the right of action, which is also absolute and unconditional, of any Owner to enforce such payment of its Bond from the sources provided herein.

**Section 806. Remedies Not Exclusive.** No remedy by the terms of this Indenture conferred upon or reserved to the Trustee or the Owners is intended to be exclusive of any other remedy, but each remedy shall be cumulative and shall be in addition to every other remedy given under this Indenture or existing at law or in equity or by statute on or after the date of the execution and delivery of this Indenture.

**Section 807. Effect of Waiver and Other Circumstances.** (A) No delay or omission of the Trustee or any Owner to exercise any right or power arising upon the happening of an Event of Default shall impair any right or power or shall be construed to be a waiver of any such default or be an acquiescence therein.

(B) The Owners of not less than two-thirds in principal amount of the Bonds at the time Outstanding, or their attorneys-in-fact duly authorized may on behalf of the Owners of all of the Bonds waive any past default under this Indenture and its consequences, except a default in the payment of interest on or principal or Redemption Price of any of the Bonds. No such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

**Section 808. Notices of Default.** The Trustee shall promptly mail written notice of the occurrence of any Event of Default to the Owners of the Bonds.

**Section 809. Rights of Credit Bank or Bond Insurer.** Subject to the provisions of any applicable Supplemental Indenture, any Credit Bank or any Bond Insurer shall be treated as the Owner of Bonds upon which such Credit Bank or Bond Insurer is obligated pursuant to a Credit Facility or Bond Insurance Policy, as applicable, for the purposes of calculating whether or not the Owners of the requisite percentage of Bonds then Outstanding have consented to any request, consent, directive, waiver or other action permitted to be taken by the Owners of the Bonds pursuant to this Article; *provided, however*, that (a) the Owners of the Bonds shall retain the right to exercise all rights under this Article related to the enforcement of the tax covenants of the MTA contained in Section 713, and (b) such Credit Bank or Bond Insurer shall cease to be so regarded as Owner of such Bonds in the event such Credit Bank or Bond Insurer is in default of its obligations under the applicable Credit Facility or Bond Insurance Policy.

Notwithstanding anything contained in this Indenture to the contrary, but subject to the provisions of any applicable Supplemental Indenture, until the MTA has reimbursed a Credit Bank for amounts paid under a Credit Facility to pay the interest on or the principal of any Bonds on any Interest Payment Date or Principal Payment Date or to the extent any Bond Insurer has exercised its rights as subrogee for the particular Bonds of which it has insured payment, (a) such

Bonds shall be deemed to be Outstanding and such Credit Bank or Bond Insurer shall succeed to the rights and interests of the Owners to the extent of the amounts paid under the Credit Facility or as specified in respect of the applicable Bond Insurance Policy until such amount has been reimbursed and (b) upon presentation to the Registrar, such Bonds shall be registered in the name of the Credit Bank or its nominee or the Bond Insurer or its nominee, as appropriate.

## ARTICLE IX

### CONCERNING THE FIDUCIARIES

**Section 901. Trustee; Appointment and Acceptance of Duties.** The Trustee hereby accepts and agrees to the trusts hereby created, but only upon the additional terms set forth in this Article, to all of which the MTA agrees and the respective Owners of the Bonds, by their purchase and acceptance thereof, agree. Except during the continuance of an Event of Default, the Trustee undertakes such duties and only such duties as are specifically set forth in this Indenture.

**Section 902. Paying Agents; Appointment and Acceptance of Duties.** (A) The Trustee is hereby appointed Paying Agent for the 2005 Bonds. The MTA shall appoint one or more Paying Agents for the Bonds of each Series of Additional Bonds, and may at any time or from time to time appoint one or more other Paying Agents having the qualifications set forth in Section 914 for a successor Paying Agent. The Trustee may be appointed a Paying Agent.

(B) The Trustee hereby accepts the duties and obligations imposed upon it as Paying Agent by this Indenture. Each other Paying Agent shall signify its acceptance of the duties and obligations imposed upon it by this Indenture by executing and delivering to the MTA and to the Trustee a written acceptance thereof.

(C) Unless otherwise provided, the corporate trust offices of the Paying Agents are designated as the respective offices or agencies of the MTA for the payment of the principal or Redemption Price of the Bonds.

**Section 903. Registrar; Appointment and Acceptance of Duties.** (A) The Trustee is hereby appointed Registrar for the 2005 Bonds. The MTA shall appoint a Registrar for each Series of Additional Bonds. Each Registrar shall have the qualifications set forth in Section 915 for a successor Registrar. The Trustee or any Paying Agent may be appointed a Registrar.

(B) The Trustee accepts the duties and obligations imposed upon it as Registrar by this Indenture. Each Registrar shall signify its acceptance of the duties and obligations imposed upon it by this Indenture by executing and delivering to the MTA and to the Trustee a written acceptance thereof.

**Section 904. Responsibilities of Fiduciaries.** (A) The recitals of fact herein and in the Bonds contained shall be taken as the statements of the MTA and no Fiduciary assumes any responsibility for the correctness of the same. No Fiduciary makes any representations as to the validity or sufficiency of this Indenture or of any Bonds issued hereunder or as to the security afforded by this Indenture, and no Fiduciary shall incur any liability in respect thereof. The Trustee shall, however, be responsible for any representation contained in its certificate on the

Bonds. No Fiduciary shall be under any responsibility or duty with respect to the application of any moneys paid to the MTA or to any other Fiduciary. No Fiduciary shall be under any obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any suit in respect hereof, or to advance any of its own moneys, unless properly indemnified. Subject to the provisions of subsection (B) of this Section, each Fiduciary undertakes to perform such duties and only such duties as are specifically set forth in the Indenture and no Fiduciary shall be liable in connection with the performance of its duties hereunder except for its own negligence or misconduct. The permissive right of the Trustee to do things enumerated in this Indenture shall not be construed as a duty. The Trustee shall not be responsible for the recording or re-recording, filing or re-filing of this Indenture, or any supplement or amendment thereto, or the filing of financing statements, or for the validity of the execution by the MTA of this Indenture, or of any supplemental indentures or instruments of further assurance, or for the sufficiency of the security for the Bonds issued hereunder or intended to be secured hereby, or for the value or title of the property herein conveyed or otherwise as to the maintenance of the security hereof. The Trustee may (but shall be under no duty to) require of the MTA full information and advice as to the performance of the covenants, conditions and agreements in this Indenture and shall make its best efforts, but without any obligation, to advise the MTA of any impending default known to the Trustee.

(B) In case an Event of Default has occurred and has not been remedied or waived, the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and shall use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs. Any provision of this Indenture relating to action taken or to be taken by the Trustee or to evidence upon which the Trustee may rely shall be subject to the provisions of this Article.

(C) Before taking any action under this Indenture relating to an event of default or in connection with its duties under this Indenture other than making payments of principal and interest on the Bonds as they become due, the Trustee may require that a satisfactory indemnity bond be furnished for the reimbursement of all expenses to which it may be put and to protect it against all liability, including, but not limited to, any liability arising directly or indirectly under any federal, state or local statute, rule, law or ordinance related to the protection of the environment or hazardous substances and except liability which is adjudicated to have resulted from its negligence or willful default in connection with any action so taken.

**Section 905. Evidence on Which Fiduciaries May Act.** (A) Each Fiduciary shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion (including any Counsel's Opinion), bond or other paper or document furnished to it pursuant to and conforming to the requirements of this Indenture, and believed by it to be genuine and to have been signed or presented by the proper party or parties.

(B) Whenever any Fiduciary shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under this Indenture, such matter (unless this Indenture specifically requires other evidence thereof) may be deemed to be conclusively proved and established by a certificate of an Authorized Officer, but in its discretion the Fiduciary may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidence as it may deem reasonable.

(C) Except as otherwise expressly provided in this Indenture, any request, order, notice or other direction required or permitted to be furnished by the MTA to any Fiduciary shall be sufficiently executed if signed by an Authorized Officer.

**Section 906. Compensation.** Unless otherwise determined by agreement between the MTA and each Fiduciary, the MTA shall pay each Fiduciary from time to time reasonable compensation for services rendered under this Indenture, as well as pay and/or reimburse each Fiduciary for the reasonable fees and expenses related to extraordinary services rendered by each Fiduciary, including without limitation reasonable fees and expenses of such Fiduciary's counsel. Upon an Event of Default, the Fiduciaries shall have a right of payment prior to payment on account of principal of, or premium, if any, or interest on, any Bond for the foregoing fees and expenses incurred; provided, that in no event shall the Fiduciaries have any such prior right of payment or claim therefor against any moneys or obligations deposited with or paid to the Fiduciaries for the redemption or payment of Bonds, which are deemed to have been paid in accordance with Section 1201.

**Section 907. Certain Permitted Acts.** Any Fiduciary may become the Owner of any Bonds, with the same rights it would have if it were not a Fiduciary. To the extent permitted by law, any Fiduciary may act as depositary for, and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners or to effect or aid in any reorganization growing out of the enforcement of the Bonds or this Indenture, whether or not any such committee shall represent the Owners of a majority in principal amount of the Bonds then Outstanding. Any Fiduciary may execute any of the trusts or powers hereof and perform any of its duties by or through attorneys, agents or receivers and shall not be answerable for the conduct of the same if appointed with due care hereunder, and shall be entitled to advice of counsel concerning all matters of trusts hereof and duties hereunder, and may in all cases pay such reasonable compensation to any attorney, agent, receiver, or employee retained or employed by it in connection herewith. Any Fiduciary may act upon the opinion or advice of an attorney or accountant selected by it in the exercise of reasonable care or, if selected or retained by the MTA, approved by the Trustee in the exercise of such care. A Fiduciary shall not be responsible for any loss or damage resulting from any action or nonaction based on its good faith reliance upon such opinion or advice.

At any and all reasonable times, the Trustee, and its duly authorized agents, attorneys, experts, accountants and representatives, shall have the right fully to inspect any and all books, papers and records of the MTA pertaining to the Bonds, and to take such memoranda from and in regard thereto as may be desired.

**Section 908. Resignation of Trustee.** The Trustee may at any time resign and be discharged of the duties and obligations imposed upon it by this Indenture by giving not less than 60 days' written notice to the MTA, all Owners of the Bonds, each Bond Insurer, the Depositaries and the other Fiduciaries, and such resignation shall take effect upon the day specified in such notice but only if a successor shall have been appointed by the MTA or the Owners as provided in Section 910, in which event such resignation shall take effect immediately on the appointment of such successor whether or not the date specified for such resignation to take effect has arrived. If a successor Trustee shall not have been appointed within a period of 90 days following the giving of notice, then the Trustee shall be authorized to petition

any court of competent jurisdiction to appoint a successor Trustee as provided in Section 910 hereof.

**Section 909. Removal of Trustee.** The Trustee may be removed at any time by an instrument in writing delivered to the Trustee and signed by the MTA; provided, however, that if an Event of Default shall have occurred and be continuing, the Trustee may be so removed by the MTA only with the written concurrence of the Owners of a majority in principal amount of Bonds then Outstanding. The Trustee may be removed at any time by the Owners of a majority in principal amount of the Bonds then Outstanding, excluding any Bonds held by or for the account of the MTA, by an instrument or concurrent instruments in writing signed and duly acknowledged by such Owners or their attorneys-in-fact duly authorized, and delivered to the MTA. The Trustee may be removed by the Bond Insurer at any time upon any breach by the Trustee of the trusts set forth in this Indenture, by an instrument in writing signed and duly acknowledged by an authorized officer of the Bond Insurer setting forth the details of the breach of trust by the Trustee. Copies of each such instrument shall be delivered by the MTA to each Fiduciary.

**Section 910. Appointment of Successor Trustee.** (A) In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer or court shall take charge or control of the Trustee, or of its property or affairs, the MTA shall appoint a successor Trustee. The MTA shall cause notice of any such appointment by it made to be mailed to all Owners of the Bonds.

(B) If no appointment of a Trustee shall be made by the MTA pursuant to the provisions of subsection (A) of this Section, the Owner of any Bond Outstanding hereunder may apply to any court of competent jurisdiction to appoint a successor Trustee. Such court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

(C) Any Trustee appointed under the provisions of this Section in succession to the Trustee shall be a bank or trust company or national banking association, doing business and having a corporate trust office in the State of California, and having capital stock and surplus aggregating at least \$50,000,000, if there be such a bank or trust company or national banking association willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by this Indenture.

**Section 911. Transfer of Rights and Property to Successor Trustee.** Any successor Trustee appointed under this Indenture shall execute, acknowledge and deliver to its predecessor Trustee, and also to the MTA, an instrument accepting such appointment, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become fully vested with all moneys, estates, properties, rights, powers, duties and obligations of such predecessor Trustee; but the predecessor Trustee shall nevertheless, on the written request of the MTA or of the successor Trustee, execute, acknowledge and deliver such instruments of conveyance and further assurances and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor Trustee all its right, title and interest in and to any property held by it under this Indenture, and shall pay over, assign and deliver to the

successor Trustee any money or other property subject to the trusts and conditions herein set forth. Should any deed, conveyance or instrument from the MTA be required by such successor Trustee for more fully and certainly vesting in and confirming to such successor Trustee any such moneys, estates, properties, rights, powers and duties, such deed, conveyance or instrument shall be executed, acknowledged and delivered by the MTA. Any such successor Trustee shall promptly notify the Paying Agents of its appointment as Trustee.

**Section 912. Merger or Consolidation.** Any company into which any Fiduciary may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which all or substantially all of the corporate trust business of any Fiduciary may be sold or transferred, shall be the successor to such Fiduciary and be bound to the obligations and duties of such Fiduciary hereunder without the execution or filing of any paper or the performance of any further act, unless such successor delivers written notice of its resignation pursuant to the provisions of this Article; *provided, however*, that such company shall be a bank or trust company organized under the laws of any state of the United States or a national banking association and shall be authorized by law to perform all the duties imposed upon it by this Indenture.

**Section 913. Adoption of Authentication.** In case any of the Bonds contemplated to be issued under this Indenture shall have been authenticated but not delivered, any successor Trustee may adopt the certificate of authentication of any predecessor Trustee so authenticating such Bonds and deliver such Bonds so authenticated; and in case any of the said Bonds shall not have been authenticated, any successor Trustee may authenticate such Bonds in the name of the predecessor Trustee or in its own name.

**Section 914. Resignation or Removal of Paying Agent and Appointment of Successor.** (A) Any Paying Agent may at any time resign and be discharged of the duties and obligations imposed upon it by this Indenture by giving at least 60 days' written notice to the MTA, each Bond Insurer and the other Fiduciaries. Any Paying Agent may be removed at any time by an instrument signed by an Authorized Officer and filed with such Paying Agent and the Trustee. Any Paying Agent may be removed by the Bond Insurer at any time upon any breach by such Paying Agent of the trusts set forth in this Indenture, by an instrument in writing signed and duly acknowledged by an authorized officer of the Bond Insurer setting forth the details of the breach of the trust by the Paying Agent. Any successor Paying Agent shall be appointed by the MTA and shall be a bank or trust company organized under the laws of any state of the United States or a national banking association, having capital stock and surplus aggregating at least \$50,000,000, willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by this Indenture.

(B) In the event of the resignation or removal of any Paying Agent, such Paying Agent shall pay over, assign and deliver any moneys held by it as Paying Agent to its successor, or if there be no successor, to the Trustee and shall be subject to audit of all of its books, records and accounts with respect to the Bonds. In the event that for any reason there shall be a vacancy in the office of any Paying Agent, the Trustee shall act as such Paying Agent.

**Section 915. Resignation or Removal of Registrar and Appointment of Successor.** (A) Any Registrar may at any time resign and be discharged of the duties and obligations

imposed upon it by this Indenture by giving at least 60 days' written notice to the MTA and the other Fiduciaries. Any Registrar may be removed at any time by an instrument signed by an Authorized Officer and filed with such Registrar and the Trustee. Any successor Registrar shall be appointed by the MTA and shall be a bank, trust company or national banking association doing business and having an office in the State of California, if there be such a bank, trust company or national banking association willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by this Indenture.

(B) In the event of the resignation or removal of any Registrar, such Registrar shall deliver all books, records and other property including the bond register of the MTA to its successor, or if there be no successor, to the Trustee. In the event that for any reason there shall be a vacancy in the office of any Registrar, the Trustee shall act as such Registrar.

**Section 916. Trustee Not Deemed to Have Notice of Default.** The Trustee shall not be deemed to have notice of any default hereunder except a Bond payment default under clause (1) or (2) of Section 801 or the failure of the MTA to file with the Trustee any document required by this Indenture unless any officer in its corporate trust office shall have actual knowledge thereof or the Trustee shall be specifically notified in writing of such default by the MTA or by the Owners of not less than a majority in principal amount of the Bonds Outstanding; and all notices or other instruments required by this Indenture to be delivered to the Trustee must, in order to be effective, be delivered at the corporate trust office of the Trustee.

**Section 917. Quarterly Report by Trustee and Depositaries.** Within seven days after the end of each calendar quarter, the Trustee, any Paying Agent and each Depositary shall prepare a written report for each Fund, Account and Sub-Account held by it pursuant to the provisions of this Indenture. Such report shall set out the receipts and disbursements, both principal and income, and shall list the Investment Securities held by the Trustee and each Depositary at the end of the quarter. A copy of each such report shall be furnished to the MTA and any persons designated by the MTA. In addition, the Trustee, any Paying Agent and each Depositary shall, at any time when requested, including, without limitation, any request at the time of the resignation of the Trustee, any Paying Agent or any Depositary, furnish to the MTA and any persons designated by the MTA a report of the amount of moneys, including Investment Securities, held in each Fund, Account or Sub-Account by the Trustee and each Depositary. For purposes of this certification, the Investment Securities in each such Fund, Account and Sub-Account shall be treated as having a value equal to their aggregate market value as of the date of the request.

## ARTICLE X

### SUPPLEMENTAL INDENTURES

**Section 1001. Supplemental Indentures Not Requiring Consent of Owners.** The MTA and the Trustee may without the consent of, or notice to, any of the Owners, enter into a Supplemental Indenture or Supplemental Indentures as shall not be inconsistent with the terms and provisions hereof for any one or more of the following purposes:



- (1) to authorize Additional Bonds and to specify, determine or authorize any matters and things concerning any such Bonds which are not contrary to or inconsistent with this Indenture;
- (2) to close this Indenture against, or impose additional limitations or restrictions on, the issuance of Bonds, or of other notes, bonds, obligations or evidences of indebtedness;
- (3) to impose additional covenants or agreements to be observed by the MTA;
- (4) to impose other limitations or restrictions upon the MTA;
- (5) to surrender any right, power or privilege reserved to or conferred upon the MTA by this Indenture;
- (6) to confirm, as further assurance, any pledge of or lien upon the Grant Receipts or any other moneys, securities or funds;
- (7) authorize the issuance of Subordinated Indebtedness and in connection therewith, specify and determine any matters and things relative thereto which are not contrary to or inconsistent with this Indenture as then in effect;
- (8) to cure any ambiguity, omission or defect in this Indenture;
- (9) to provide for the appointment of a successor securities depository in the event any Series of Bonds is held in book-entry only form;
- (10) to provide for the appointment of any successor Fiduciary; and
- (11) to make any other change which, in the judgment of the Trustee, is not to the prejudice of the Trustee or the Owners.

**Section 1002. Supplemental Indentures Effective upon Consent of Owners.** Any Supplemental Indenture not effective in accordance with Section 1001 shall take effect only if permitted and approved and in the manner prescribed by Article XI.

**Section 1003. Filing of Counsel's Opinion.** Each Supplemental Indenture described in Section 1001 shall be accompanied, when filed with the Trustee, by a Counsel's Opinion to the effect that such Supplemental Indenture has been duly authorized by the MTA in accordance with the provisions of this Indenture, is authorized or permitted by this Indenture and, when executed and delivered, will be valid and binding upon the MTA, the Owners and the Trustee.

**Section 1004. Notice to Bond Insurer.** Notice of the execution and delivery of each Supplemental Indenture described in Section 1001 shall be given to each Bond Insurer and Credit Bank, which notice shall include a copy of such Supplemental Indenture in the form so executed and delivered.

## ARTICLE XI

### AMENDMENTS

**Section 1101. Mailing.** Any provision in this Article for the mailing of a notice or other information to Owners shall be fully complied with if it is mailed by first class mail, postage prepaid or delivered only to each Owner of Bonds then Outstanding at its address, if any, appearing upon the registration books of the MTA kept by the Registrar.

**Section 1102. Powers of Amendment.** Except for Supplemental Indentures described in Section 1001, any modification or amendment of this Indenture and of the rights and obligations of the MTA and of the Owners of the Bonds hereunder, in any particular, may be made by a Supplemental Indenture with the written consent given as provided in Section 1103 hereof (i) of the Owners of at least a majority in principal amount of the Bonds Outstanding at the time such consent is given, and (ii) in case less than all of the several Series of Bonds then outstanding are affected by the modification or amendment, of the Owners of at least a majority in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given; *provided, however*, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bonds, or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Owner of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Owners of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto. For the purposes of this Section, a Series shall be deemed to be affected by a modification or amendment of this Indenture if the same adversely affects or diminishes the rights of the Owners of Bonds of such Series. The Trustee may in its discretion determine whether or not the rights of the Owners of Bonds of any particular Series or maturity would be adversely affected or diminished by any such modification or amendment, and its determination shall be binding and conclusive on the MTA and all Owners of the Bonds.

**Section 1103. Consent of Owners.** The MTA may at any time authorize the execution and delivery of a Supplemental Indenture making a modification or amendment permitted by the provisions of Section 1102, to take effect when and as provided in this Section. Subject to the provisions of Section 1208, the rights of the Owner of an Insured Bond to take any action pursuant to this Section 1103 are abrogated and the Bond Insurer may exercise the rights of the Owner of any Insured Bond that is entitled to the benefits of the Bond Insurance Policy issued by the Bond Insurer for the purpose of any approval, request, demand, consent, waiver or other instrument of similar purpose pursuant to any provision of this Section. Upon the authorization of such Supplemental Indenture, a copy thereof shall be delivered to and held by the Trustee for the inspection of the Owners. A copy of such Supplemental Indenture (or summary thereof or reference thereto in form approved by the Trustee) together with a request to Owners for their consent thereto in form satisfactory to the Trustee, shall be mailed to the Owners, but failure to

mail such copy and request shall not affect the validity of such Supplemental Indenture when consented to as in this Section provided. Such Supplemental Indenture shall not be effective unless and until, and shall take effect in accordance with its terms when (a) there shall have been filed with the Trustee (i) the written consents of the Owners of the required principal amount of Outstanding Bonds, and (ii) a Counsel's Opinion stating that the execution and delivery of such Supplemental Indenture has been duly authorized by the MTA in accordance with the provisions of this Indenture, is authorized or permitted by this Indenture and, when effective, will be valid and binding upon the MTA, the Owners and the Trustee, and (b) a notice shall have been mailed as hereinafter in this Section provided. A certificate or certificates by the Trustee delivered to the MTA that consents have been given by the Owners of the Bonds described in such certificate or certificates of the Trustee shall be conclusive. Any such consent shall be binding upon the Owner of the Bonds giving such consent and upon any subsequent Owner of such Bonds and of any Bonds issued in exchange therefor whether or not such subsequent Owner has notice thereof; *provided, however*, that any consent may be revoked by any Owner of such Bonds by filing with the Trustee, prior to the time when the Trustee's written statement hereafter in this Section referred to is filed, a written revocation, with proof that such Bonds are held by the signer of such revocation. The fact that a consent has not been revoked may be proved by a certificate of the Trustee to the effect that no revocation thereof is on file with it. Any consent, or revocation thereof, may be delivered or filed prior to any mailing or publication required by this Article and shall not be deemed ineffective by reason of such prior delivery or filing. Within 30 days of any date on which the consents on file with the Trustee and not theretofore revoked shall be sufficient under this Section, the Trustee shall make and deliver to the MTA a written statement that the consents of the Owners of the required principal amount of Outstanding Bonds have been filed with the Trustee. Such written statement shall be conclusive that such consents have been so filed. Any time thereafter notice, stating in substance that the Supplemental Indenture has been consented to by the Owners of the required principal amount of Outstanding Bonds and will be effective as provided in this Section, shall be given by mailing to the Owners (but failure to mail such notice or any defect therein shall not prevent such Supplemental Indenture from becoming effective and binding). The Trustee shall deliver to the MTA proof of the mailing of such notice. A record, consisting of the information required or permitted by this Section to be delivered by or to the Trustee, shall be proof of the matters therein stated.

**Section 1104. Modifications by Unanimous Action.** The Indenture and the rights and obligations of the MTA and of the Owners of the Bonds thereunder may be modified or amended in any respect by a Supplemental Indenture effecting such modification or amendment and with the consents of the Owners of all the Bonds then Outstanding, each such consent to be accompanied by proof of the holding at the date of such consent of the Bonds with respect to which such consent is given. Such Supplemental Indenture shall take effect upon the filing (a) with the Trustee of (i) a copy thereof, (ii) such consents and accompanying proofs and (iii) the Counsel's Opinion referred to in Section 1103 and (b) with the MTA of the Trustee's written statement that the consents of the Owners of all Outstanding Bonds have been filed with it. No mailing or publication of any Supplemental Indenture (or reference thereto or summary thereof) or of any request or notice shall be required. No such modification or amendment, however, shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto.

**Section 1105. Exclusion of Bonds.** Bonds owned or held by or for the account of the MTA shall not be deemed Outstanding and shall be excluded for the purpose of any calculation required by this Article. At the time of any consent or other action taken under this Article, the MTA shall furnish the Trustee a certificate of an Authorized Officer, upon which the Trustee may rely, identifying all Bonds so to be excluded.

**Section 1106. Notation on Bonds.** Bonds authenticated and delivered after the effective date of any action taken as in Article X or this Article provided may, and if the Trustee so determines shall, bear a notation by endorsement or otherwise in form approved by the MTA and the Trustee as to such action, and upon demand of the Owner of any Bond Outstanding at such effective date and presentation of its Bond to the Trustee, suitable notation shall be made on such Bond by the Trustee as to any such action. If the MTA or the Trustee shall so determine, new Bonds so modified which, in the opinion of the Trustee and the MTA, conform to such action may be prepared, authenticated and delivered, and upon demand of the Owner of any Bond then Outstanding shall be exchanged, without cost to such Owner, for such Bond then Outstanding.

## ARTICLE XII

### MISCELLANEOUS

**Section 1201. Defeasance.** (A) If the MTA shall pay or cause to be paid or there shall otherwise be paid to the Owners of all Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in this Indenture, then the pledge of any Grant Receipts and other moneys and securities pledged under this Indenture and all covenants, agreements and other obligations of the MTA to the Owners shall thereupon be discharged and satisfied. In such event, the Trustee, upon request of the MTA, shall provide an accounting of the assets managed by the Trustee to be prepared and filed with the MTA for any year or part thereof requested, and shall execute and deliver to the MTA all such instruments as may be desirable to evidence such discharge and satisfaction, and the Fiduciaries shall pay over or deliver to the MTA all moneys and securities held by them pursuant to this Indenture which are not required for the payment of Bonds not previously surrendered for such payment or redemption. If the MTA shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of all Outstanding Bonds of a particular Series, maturity within a Series or portion of any maturity within a Series (which portion shall be selected by lot by the Trustee in the manner provided in Section 404 for the selection of Bonds to be redeemed in part), the principal or Redemption Price, if applicable, thereof and interest due or to become due thereon, at the times and in the manner stipulated therein and in this Indenture, such Bonds shall cease to be entitled to any lien, benefit or security under this Indenture, and all covenants, agreements and obligations of the MTA to the Owners of such Bonds and to the Trustee shall thereupon be discharged and satisfied.

(B) Bonds or interest installments for the payment or redemption of which moneys shall have been set aside and held in trust by the Trustee at or prior to their maturity or redemption date shall be deemed to have been paid within the meaning of and with the effect expressed in this Section 1201 if the MTA shall have delivered to or deposited with the Trustee (i) irrevocable instructions to pay or redeem all of said Bonds in specified amounts no less than the respective amounts of, and on specified dates no later than the respective due dates of, their

principal, (ii) irrevocable instructions to publish or mail the required notice of redemption of any Bonds so to be redeemed, (iii) either moneys in an amount which shall be sufficient, or Defeasance Obligations the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient, to pay when due the principal or Redemption Price, if applicable, and interest due and to become due on said Bonds on and prior to each specified redemption date or maturity date thereof, as the case may be, and (iv) if any of said Bonds are not to be redeemed within the next succeeding 60 days, irrevocable instructions to mail to all Owners of said Bonds a notice that such deposit has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this Section and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal or Redemption Price, if applicable, of said Bonds. The Defeasance Obligations and moneys deposited with the Trustee pursuant to this Section shall be held in trust for the payment of the principal or Redemption Price, if applicable, and interest on said Bonds. No payments of principal of any such Defeasance Obligations or interest thereon shall be withdrawn or used for any purpose other than the payment of such principal or Redemption Price of, or interest on, said Bonds unless after such withdrawal the amount held by the Trustee and interest to accrue on Defeasance Obligations so held shall be sufficient to provide fully for the payment of the principal of or Redemption Price and interest on such Bonds, at maturity or upon redemption, as the case may be.

(C) Amounts deposited with the Trustee for the payment of the principal of and interest on any Bonds deemed to be paid pursuant to this Section 1201, if so directed by the MTA, shall be applied by the Trustee to the purchase of such Bonds in accordance with this subsection. Bonds for which a redemption date has been established may be purchased on or prior to the forty-fifth day preceding the redemption date. The principal amount of Bonds to be redeemed shall be reduced by the principal amount of Bonds so purchased. Bonds which mature on a single future date may be purchased at any time prior to the maturity date. All such purchases shall be made at prices not exceeding the applicable principal amount or Redemption Price established pursuant to subsection (B) of this Section 1201, plus accrued interest, and such purchases shall be made in such manner as the Trustee shall determine. No purchase shall be made by the Trustee pursuant to this subsection if such purchase would result in the Trustee holding less than the moneys and Defeasance Obligations required to be held for the payment of all other Bonds deemed to be paid pursuant to this Section 1201.

(D) The MTA may purchase with any available funds any Bonds deemed to be paid pursuant to this Section 1201 in accordance with this subsection. Bonds for which a redemption date has been established may be purchased by the MTA on or prior to the forty-fifth day preceding the redemption date. On or prior to the forty-fifth day preceding the redemption date the MTA shall give notice to the Trustee of its intention to surrender such Bonds on the redemption date. The Trustee shall proceed to call for redemption the remainder of the Bonds due on the redemption date and shall pay to the MTA on the redemption date the Redemption Price of and interest on such Bonds upon surrender of such Bonds to the Trustee. Bonds which mature on a single future date may be purchased at any time prior to the maturity date. The Trustee shall pay to the MTA the principal amount of and interest on such Bonds upon surrender of such Bonds on the maturity date.

(E) Any time after any Bonds are deemed to be paid pursuant to this Section 1201, the MTA shall not at any time permit any of the proceeds of the Bonds or any other funds of the MTA to be used directly or indirectly to acquire any securities or obligations the acquisition of which would cause any Bond to be an “arbitrage bond” as defined in the Code and Regulations.

(F) Each Fiduciary shall continue to be entitled to reasonable compensation for all services rendered under this Indenture, notwithstanding that any Bonds are deemed to be paid pursuant to this Section 1201.

(G) Anything in this Indenture to the contrary notwithstanding, any moneys held by a Fiduciary in trust for the payment and discharge of any of the Bonds which remain unclaimed for two years after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for two years after the date of deposit of such moneys if deposited with the Fiduciary after the said date when such Bonds become due and payable, shall, at the written request of the MTA, be repaid by the Fiduciary to the MTA, as its absolute property and free from trust, and the Fiduciary shall thereupon be released and discharged with respect thereto and the Owners of such Bonds shall look only to the MTA for the payment of such Bonds.

**Section 1202. Evidence of Signatures of Owners and Ownership of Bonds.** (A) Any request, consent, revocation of consent or other instrument which this Indenture may require or permit to be signed and executed by the Owners may be in one or more instruments of similar tenor, and shall be signed or executed by such Owners in person or by their attorneys appointed in writing. Proof of (i) the execution of any such instrument, or of an instrument appointing any such attorney, or (ii) the holding by any Person of the Bonds shall be sufficient for any purpose of this Indenture (except as otherwise herein expressly provided) if made in the following manner, or in any other manner satisfactory to the Trustee, which may nevertheless in its discretion require further or other proof in cases where it deems the same desirable:

(1) The fact and date of the execution by any Owner or its attorney of such instruments may be proved by a guarantee of the signature thereon by a bank, national banking association or trust company or by the certificate of any notary public or other officer authorized to take acknowledgments of deeds, that the Person signing such request or other instruments acknowledged to that person the execution thereof, or by an affidavit of witness of such execution, duly sworn to before such notary public or other officer. Where such execution is by an officer of a corporation or association or a member of a partnership, on behalf of such corporation, association or partnership, such signature guarantee, certificate or affidavit shall also constitute sufficient proof of authority.

(2) The ownership of Bonds and the amount, numbers and other identification and date of holding the same shall be proved by the registration book maintained by the Registrar.

(B) Any request or consent by the Owner of any Bond shall bind all future Owners of such Bond in respect of anything done or suffered to be done by the MTA or any Fiduciary in accordance therewith.

**Section 1203. Moneys Held for Particular Bonds.** The amounts held by any Fiduciary for the payment of interest, principal or Redemption Price due on any date with respect to particular Bonds shall, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Owners of the Bonds entitled thereto.

**Section 1204. Preservation and Inspection of Documents.** All documents received by any Fiduciary under the provisions of this Indenture, shall be retained in its possession and shall be subject at all reasonable times to the inspection of the MTA, any other Fiduciary, and any Owner and their agents and their representatives, any of whom may make copies thereof.

**Section 1205. Cancellation and Destruction of Bonds.** All Bonds paid or redeemed, either at or before maturity, and all mutilated Bonds surrendered pursuant to Section 307, shall be delivered to the Trustee when such payment or redemption is made or upon surrender, as the case may be, and such Bonds, together with all Bonds purchased by the Trustee, shall thereupon be promptly cancelled. Bonds so cancelled may at any time be destroyed by the Trustee, who shall execute a certificate of destruction in duplicate by the signature of one of its authorized officers describing the Bonds so destroyed, and one executed certificate shall be delivered to the MTA and the other retained by the Trustee.

**Section 1206. Parties Interested Herein.** (A) Nothing in this Indenture expressed or implied is intended or shall be construed to confer upon, or to give to, any Person, other than the MTA, the Fiduciaries, any Bond Insurer, any Credit Bank and the Owners of the Bonds, any right, remedy or claim under or by reason of this Indenture or any covenant, condition or stipulation thereof; and all the covenants, stipulations, promises and agreements in this Indenture contained by and on behalf of the MTA shall be for the sole and exclusive benefit of the MTA, the Fiduciaries, any Bond Insurer, any Credit Bank and the Owners of the Bonds.

(B) To the extent that this Indenture confers upon and gives or grants to the Bond Insurer any right, remedy or claim under or by reason of this Indenture, the Bond Insurer is explicitly recognized as being a third party beneficiary under this Indenture and, subject to the provisions of Section 721 and Section 1208, may enforce any such right, remedy or claim conferred, given or granted under this Indenture.

**Section 1207. No Recourse on the Bonds.** (A) No recourse shall be had for the payment of the principal or Redemption Price of or interest on the Bonds or for any claim based thereon or on this Indenture against any past, present or future member of the Board, officer, employee or agent of the MTA, or any successor, public body or any person executing the Bonds, either directly or through the MTA, under any rule of law or equity, statute or constitution or otherwise, and all such liability of any such officers, members, employees or agents as such is hereby expressly waived and released as a condition of and consideration for the execution of this Indenture and the issuance of the Bonds.

(B) No member of the Board, officer, agent or employee of the MTA shall be individually or personally liable for the payment of the principal or Redemption Price of or interest on the Bonds; but nothing herein contained shall relieve any such officer, director, agent or employee from the performance of any official duty provided by law.

(C) All covenants, stipulations, obligations and agreements of the MTA contained in this Indenture shall be deemed to be covenants, stipulations, obligations and agreements of the MTA to the full extent authorized and permitted by the Constitution and laws of the State of California, and no covenants, stipulations, obligations or agreements contained herein shall be deemed to be a covenant, stipulation, obligation or agreement of any present or future member of the Board, officer, agent or employee of the MTA in his or her individual capacity, and no officer executing the Bonds shall be liable personally on the Bonds or be subject to any personal liability or accountability by reason of the issue thereof. No member of the Board, officer, director, agent or employee of the MTA shall incur any personal liability in acting or proceeding or in not acting or not proceeding in accordance with the terms of this Indenture.

**Section 1208. Rights of Bond Insurer.** All rights of the Bond Insurer under this Indenture, or any Supplemental Indenture shall cease and terminate if: (i) the Bond Insurer has failed to make any payment under the Bond Insurance Policy; (ii) the Bond Insurance Policy shall cease to be valid and binding on the Bond Insurer or shall be declared to be null and void, or the validity or enforceability of any provision thereof is being contested by the Bond Insurer, or the Bond Insurer is denying further liability or obligation under such Bond Insurance Policy; (iii) a petition has been filed and is pending against the Bond Insurer under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution, liquidation or rehabilitation law of any jurisdiction, and has not been dismissed within sixty days after such filing; (iv) the Bond Insurer has filed a petition, which is still pending, in voluntary bankruptcy or is seeking relief under any provision of any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution, liquidation or rehabilitation law of any jurisdiction, or has consented to the filing of any petition against it under any such law; or (v) a receiver has been appointed for the Bond Insurer under the insurance laws of any jurisdiction.

**Section 1209. Successors and Assigns.** Whenever in this Indenture the MTA is named or referred to, it shall be deemed to include its successors and assigns and all the covenants and agreements in this Indenture contained by or on behalf of the MTA shall bind and inure to the benefit of its successors and assigns whether so expressed or not.

**Section 1210. Severability of Invalid Provisions.** If any one or more of the covenants or agreements provided in this Indenture on the part of the MTA or any Fiduciary to be performed should be contrary to law, then such covenant or covenants or agreement or agreements shall be deemed severable from the remaining covenants and agreements, and shall in no way affect the validity of the other provisions of this Indenture.

**Section 1211. Notices.** Any notice, demand, direction, request or other instruments authorized or required by this Indenture to be given to, delivered to or filed with the MTA or the Trustee shall be deemed to have been sufficiently given, delivered or filed for all purposes of the Indenture if and when sent by registered mail, return receipt requested:

To the MTA, if addressed to:	Los Angeles County Metropolitan Transportation Authority One Gateway Plaza, 21st Floor Los Angeles, California 90012-2952 Attention: Assistant Treasurer
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to such other address as may be designated in writing by the MTA to the Trustee; and

To the Trustee, if addressed to: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Attention: Corporate Trust Department

or at such other address as may be designated in writing by the Trustee to the MTA.

Any notice that is required to be given to any Owner of the 2005 Bonds or to the Trustee pursuant to this Indenture shall also be provided to the Bond Insurer. All notices required to be given to the Bond Insurer under this Indenture shall be in writing and shall be sent by registered or certified mail addressed to \_\_\_\_\_.

**Section 1212. Construction.** The Indenture and all Supplemental Indentures shall be construed in accordance with the provisions of California law.

**Section 1213. Headings Not a Part of This Indenture.** Any headings preceding the texts of the several Articles and Sections hereof, and any Table of Contents appended to copies hereof, are solely for convenience of reference and do not constitute a part of this Indenture, nor do they affect its meaning, construction or effect.

**Section 1214. Multiple Counterparts.** This Indenture may be executed in multiple counterparts, each of which shall be regarded for all purposes as an original; and such counterparts shall constitute but one and the same instrument.

## ARTICLE XIII

### ARS PROVISIONS

#### **Section 1301. Payments with Respect to ARS.**

(A) Interest with respect to ARS shall accrue from and including, as applicable, the Closing Date or the most recent ARS Interest Payment Date to which interest has been paid or duly provided for.

(B) The Trustee shall determine the aggregate amount of interest payable in accordance with subsection (E) below with respect to ARS on each ARS Interest Payment Date. Interest due on any ARS Interest Payment Date with respect to each \$25,000 in principal amount of ARS shall equal (i) the Applicable ARS Rate multiplied by (ii) the principal amount of \$25,000 multiplied by (iii) if the number of days in the Auction Period is less than 183, the number of days in the applicable ARS Interest Period, and, if the number of days in the Auction Period is 183 or greater, the number of days in the applicable ARS Interest Period assuming twelve 30-day months, divided by (iv) 360, and rounding the resultant figure to the nearest cent (a half cent being rounded upward). The Trustee shall notify the DTC of its calculations, as provided in Section 1303(B) of this Indenture.

(C) Interest on the ARS shall be computed on the basis of a 360-day year for the actual number of days elapsed, except in the case of a Special Auction Period of 183 days or more in which case it will be computed on the basis of twelve 30-day months. The Applicable ARS Rate for each ARS Interest Period after the first ARS Interest Period shall be the Auction Rate; provided that

(i) in the event the Auction Agent fails to calculate or, for any reason, fails to timely provide the Auction Rate for any Auction Period (except as contemplated otherwise herein pursuant to (x), (y) and (z) below), the new Auction Period shall be the same as the preceding Auction Period if the preceding Auction Period was a period of 35 days or less and the new Auction Period shall be a seven-day Auction Period if the preceding Auction Period was a period of greater than 35 days and the Auction Rate for the new Auction Period shall be the same as the Auction Rate for the preceding Auction Period. The ARS shall continue in such Auction Period until changed pursuant to Section 1309(A) hereof.

Notwithstanding the foregoing:

(x) if the ownership of the ARS is no longer maintained in book-entry form by the DTC, the Applicable ARS Rate for any Auction Period commencing after the delivery of certificates representing the ARS pursuant to Section 203(J) of this Indenture shall equal the ARS Maximum Rate.

(y) if an ARS Payment Default shall have occurred with respect to the ARS, the Applicable ARS Rate for the Auction Period commencing on or immediately after such ARS Payment Default and for each Auction Period thereafter, to and including the Auction Period, if any, during which, or commencing less than two Business Days after, such ARS Payment Default is cured in accordance with this Indenture, shall equal the Non-Payment Rate on the first day of each such Auction Period, provided that if an Auction occurred on the Business Day immediately preceding any such Auction Period, the Applicable ARS Rate for such Auction Period shall be the Non-Payment Rate.

(z) for any Auction Period during which there is no duly appointed Auction Agent, or during which there is no duly appointed Broker-Dealer, no Auction will be held and, if the preceding Auction Period was 35 days or less, the new Auction Period shall be the same as the preceding Auction Period and, if the preceding Auction Period was more than 35 days, the new Auction Period shall be a seven-day Auction Period and the Auction Rate in each case shall be the ARS Maximum Rate. The ARS shall continue in such Auction Period until changed pursuant to Section 1309(A) hereof.

(D) Medium of Payment.

(i) The principal of and interest on the ARS shall be payable in any currency of the United States of America which on the respective dates for payment thereof is legal tender for the payment of public and private debts. The principal of and interest on the ARS (other than at maturity) shall be payable by check mailed on the date due to the

registered owner thereof on the Record Date at the address of such registered owner as it appears on the registration books maintained by the Trustee.

(ii) Interest payable on any ARS Interest Payment Date to a registered owner of ARS in the aggregate principal amount of \$1,000,000 or more may, upon written request by such registered owner received by the Trustee prior to the Record Date preceding such ARS Interest Payment Date, be paid by wire transfer on the date due to a designated account in the United States. Such written request shall remain in effect until rescinded in writing by such registered owner. The principal of each ARS at maturity will be paid upon presentation and surrender thereof at the Principal Office of the Trustee.

(iii) Unless otherwise requested by the DTC, payments of the principal of ARS, at maturity or upon redemption, and payments of interest on ARS made by wire transfer, shall be made by the Trustee in immediately available funds, provided, however, that such method of payment may be modified by written agreement among the Trustee, the DTC and the Auction Agent.

(E) Computation of Interest Distributable on ARS. The amount of interest distributable to ARS Beneficial Owners, in respect of each \$25,000 in principal amount thereof for any ARS Interest Period or part thereof, shall be calculated by the Trustee by applying the Applicable ARS Rate with respect to the ARS, for such ARS Interest Period or part thereof, to the principal amount of \$25,000, multiplying such product by the actual number of days in such ARS Interest Period or part thereof if the number of days in the Auction Period is less than 183 and multiplying the product by the number of days in such ARS Interest Period assuming twelve 30-day months if the number of days in the Auction Period is 183 days or more in each case divided by 360 and rounding the resultant figure to the nearest cent (half a cent being rounded upward).

(F) ARS Defaulted Interest.

(i) The Trustee shall determine not later than 2:00 p.m., New York City time, on each ARS Interest Payment Date, whether an ARS Payment Default has occurred. If an ARS Payment Default has occurred, the Trustee shall, not later than 2:30 p.m. New York City time on such Business Day, send a Notice of ARS Payment Default to the Auction Agent and each Broker-Dealer by telecopy or similar means and, if such ARS Payment Default is cured, the Trustee shall immediately send a Notice of Cure of ARS Payment Default to the Auction Agent and each Broker-Dealer by telecopy or similar means.

(ii) ARS Defaulted Interest shall forthwith cease to be payable to the ARS Beneficial Owner on the relevant Record Date by virtue of having been such ARS Beneficial Owner and such ARS Defaulted Interest shall be payable to the Person in whose name the ARS are registered at the close of business on a Special Record Date fixed therefor by the Trustee, which shall not be more than 15 days and not less than ten days prior to the date of the proposed payment of ARS Defaulted Interest. The Trustee shall promptly notify the MTA of the Special Record Date and, at the MTA's expense,

mail to each ARS Beneficial Owner of ARS of which it has knowledge, not less than ten days before the Special Record Date, notice of the date of the proposed payment of such ARS Defaulted Interest.

### **Section 1302. Calculation of All-Hold Rate.**

The Auction Agent shall calculate the All-Hold Rate on each Auction Date. If the ownership of the ARS is no longer maintained in book-entry form by the Securities Depository, the Auction Agent shall announce the ARS Maximum Rate on the Business Day immediately preceding each ARS Interest Payment Date after the delivery of certificates representing the ARS pursuant to Section 203(J) of this Indenture. If an ARS Payment Default shall have occurred, the Trustee shall announce the Non-Payment Rate on the first day of (i) each Auction Period commencing on or after the date of the occurrence and during the continuance of such ARS Payment Default and (ii) any Auction Period commencing less than two Business Days after the cure of any ARS Payment Default. The determination by the Auction Agent of the All-Hold Rate shall (in the absence of manifest error) be final and binding upon all ARS Beneficial Owners and all other parties. The Auction Agent shall promptly advise the Trustee of the All-Hold Rate.

### **Section 1303. Notification of Rates, Amounts and Payment Dates.**

(A) So long as the ownership of the ARS is maintained in book-entry form by the DTC, the Trustee shall advise the DTC (i) of each Record Date for the ARS at least two Business Days prior thereto and (ii) of each succeeding Interest Payment Date on each Interest Payment Date.

(B) On the Closing Date, or as soon as practicable thereafter, and on the Business Day preceding each ARS Interest Payment Date with respect to the ARS, the Trustee shall advise the DTC, so long as the ownership of the ARS is maintained in book-entry form by the DTC, of the amount of interest distributable in respect of each \$25,000 in principal amount of ARS for any ARS Interest Period or part thereof, calculated in accordance with Section 1301(E) of this Indenture.

If any day scheduled to be an ARS Interest Payment Date shall be changed after the Trustee shall have given notice, the Trustee shall, not later than 9:15 a.m., New York City time, on the Business Day next preceding the earlier of the new ARS Interest Payment Date or the old ARS Interest Payment Date, by such means as the Trustee deems practicable, give notice of such change to the Auction Agent, so long as no ARS Payment Default has occurred and is continuing and the ownership of the ARS is maintained in book-entry form by the DTC.

### **Section 1304. Adjustments with Respect to ARS Provisions.**

Notwithstanding any other provision of this Indenture relating to ARS, including without limitation the definitions of terms used in this Article XIII (including without limitation the definitions of Applicable ARS Rate, All-Hold Rate, Index, ARS Maximum Rate and Non-Payment Rate), the ARS provisions may be amended by the MTA, (i) upon obtaining Counsel's Opinion that the same does not materially adversely affect the rights of the ARS Beneficial Owners or (ii) by obtaining the consent of a majority of the ARS Beneficial Owners and, in each

case, delivering a Favorable Opinion of Bond Counsel. In the case of clause (ii) above, the Trustee shall mail notice of such amendment to the ARS Beneficial Owners of which it has knowledge pursuant to Section 203(J), and if, on the first Auction Date occurring at least 20 days after the date on which the Trustee mailed such notice, Sufficient Clearing Bids have been received or all of the ARS are subject to Submitted Hold Orders and if the Bond Insurer has provided written consent by such Auction Date, the proposed amendment shall be deemed to have been consented to by the ARS Beneficial Owners. Written notice of each such amendment shall be delivered by the MTA to the Trustee, the Auction Agent, and each Broker-Dealer.

### **Section 1305. Auction Agent.**

(A) The Trustee is hereby directed to enter into the Initial Auction Agent Agreement with the Initial Auction Agent and to appoint \_\_\_\_\_ as the initial Auction Agent. Any Substitute Auction Agent shall be (i) subject to the written approval of the Bond Insurer and each Broker-Dealer, (ii) a bank or trust company duly organized under the laws of the United States of America or any state or territory thereof and having a combined capital stock or surplus of at least \$15,000,000, or (iii) a member of the National Association of Securities Dealers, Inc., having a capitalization of at least \$15,000,000, and, in either case, authorized by law to perform all the duties imposed upon it hereunder and under the Auction Agent Agreement. The Auction Agent may at any time resign and be discharged of the duties and obligations created by this Indenture by giving at least 45 days' notice to the Trustee, the Broker-Dealer, the MTA and the Bond Insurer. The Auction Agent may be removed at any time by the Trustee, upon the written direction of (i) the MTA with the Bond Insurer consent (which shall not be unreasonably withheld), (ii) the Bond Insurer or (iii) the ARS Beneficial Owners of 66-2/3% of the aggregate principal amount of the ARS then outstanding with Bond Insurer consent, by an instrument signed by the Trustee and filed with the Auction Agent, the Bond Insurer and the MTA upon at least 30 days' notice. Neither the resignation nor the removal of the Auction Agent pursuant to the preceding two sentences shall be effective until and unless a Substitute Auction Agent has been appointed and has accepted such appointment; provided, however, that if a Substitute Auction Agent has not been so appointed within 45 days of the notice of resignation of the Auction Agent, the Auction Agent may petition a court of competent jurisdiction to appoint a Substitute Auction Agent. Notwithstanding the foregoing, the Auction Agent may terminate the Auction Agent Agreement if, within 30 days after notifying the Trustee, the MTA and the Bond Insurer in writing that it has not received payment of any Auction Agent Fee due it in accordance with the terms of the Auction Agent Agreement, the Auction Agent does not receive such payment. The Bond Insurer may make the payment of any Auction Agent Fee and expenses due the Auction Agent. The Trustee shall not be liable for any action taken, suffered or omitted by the Auction Agent.

(B) If the Auction Agent shall resign or be removed or be dissolved, or if the property or affairs of the Auction Agent shall be taken under the control of any state or federal court or administrative body because of bankruptcy or insolvency, or for any other reason, the Trustee, at the direction of the MTA, shall use its best efforts to appoint a Substitute Auction Agent.

(C) In the absence of willful misconduct, negligent failure to act or negligence on its part, the Auction Agent shall not be liable for any action taken, suffered or omitted or any error of judgment made by it in the performance of its duties under the Auction Agent Agreement and

shall not be liable for any error of judgment made in good faith unless the Auction Agent shall have been negligent in ascertaining (or failing to ascertain) the pertinent facts. The Trustee shall not be liable for any action, omission or error in judgment by the Auction Agent.

(D) The Auction Agent shall not be responsible or liable for any failure or delay in the performance of its obligations under this Indenture arising out of or caused, directly or indirectly, by circumstances beyond its reasonable control, including without limitation, acts of God; earthquakes; fires; floods; wars; civil or military disturbances; sabotage; acts of terrorism; epidemics; riots; interruptions, loss or malfunctions of utilities; computer (software or hardware) or communications services; accidents; labor disputes; acts of civil or military authority or governmental actions; it being understood that the Auction Agent shall use reasonable efforts which are consistent with accepted practices in the banking industry to resume performance as soon as practicable under the circumstances.

#### **Section 1306. Broker-Dealers.**

(A) The Auction Agent shall enter into a Broker-Dealer Agreement with Citigroup Global Markets Inc. and Goldman, Sachs & Co., as the initial Broker-Dealers. The MTA may, from time to time, approve one or more additional Persons approved by the Bond Insurer (which consent shall not be unreasonably withheld) to serve as Broker-Dealers under Broker-Dealer Agreements and shall be responsible for providing such Broker-Dealer Agreements to the Trustee and the Auction Agent. No such party shall constitute a Broker-Dealer until a fully executed Broker-Dealer Agreement is delivered to the Trustee and the Auction Agent.

(B) Any Broker-Dealer may be removed at any time, at the written request of the MTA, with the written consent of the Bond Insurer (which consent shall not be unreasonably withheld).

#### **Section 1307. Provisions Relating to Auctions.**

None of the MTA, the Trustee or the Auction Agent shall be responsible for any failure of a Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Holder or Potential Holder, nor shall any of the MTA, the Trustee or the Auction Agent be responsible for failure by the DTC to effect any transfer or to provide the Auction Agent with current information regarding registration of transfers. None of the MTA, the Trustee, the Broker-Dealers or the Auction Agent shall have any liability in the event that there are not Sufficient Clearing Bids from time to time pursuant to the Auction Procedures.

#### **Section 1308. Agreement of Holders.**

By purchasing ARS, whether in an Auction or otherwise, each prospective purchaser of ARS and its Broker-Dealer will be deemed to have agreed to the provisions for the replacement of the Auction Agent and each Broker-Dealer as provided in this Indenture, and relevant agreements among the MTA, the Trustee, the Auction Agent, and the Broker-Dealer, as appropriate.

## **Section 1309. Changes in Auction Period or Auction Date.**

### **(A) Changes in Auction Period.**

(i) The Auction Periods for the ARS Interest Rate Periods commencing on the Closing Date initially shall be a [35-day period] commencing generally on a [Wednesday]. The Auction Period for the ARS with respect to each subsequent ARS Interest Rate Period, if any, initially shall be either a seven-day period, a 28-day period, a 35-day period or a Special Auction Period, commencing generally on a Monday, generally on a Tuesday, generally on a Wednesday, generally on a Thursday or generally on a Friday.

(ii) During any Auction Period, the MTA may from time to time and on any ARS Interest Payment Date immediately following an Auction Period, change the length of the Auction Period between seven-days, 28-days, 35-days and a Special Auction Period in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by the ARS. The MTA shall initiate the change in the length of the Auction Period by giving written notice to the Trustee, the Bond Insurer, the Auction Agent, the Broker-Dealer and the DTC that the Auction Period shall change if the conditions described herein are satisfied and the proposed effective date of the change, at least three Business Days prior to the Auction Date for such Auction Period.

(iii) Any such changed Auction Period shall be for a period of seven days, 28 days, 35 days or for a Special Auction Period and shall apply for all of the ARS.

(iv) The change in length of the Auction Period for the ARS shall take effect only if Sufficient Clearing Bids exist at the Auction on the Auction Date for the first such Auction Period. For purposes of the Auction for such first Auction Period only, each Existing Holder shall be deemed to have submitted Sell Orders with respect to all of its ARS except to the extent such Existing Holder submits an Order with respect to such ARS. If the condition referred to in the first sentence of this clause (iv) is not met, the Auction Rate for the next Auction Period shall be the ARS Maximum Rate, and the Auction Period shall be a seven-day Auction Period.

(B) Changes in Auction Date. During any ARS Interest Rate Period, the MTA may specify an earlier Auction Date for any Business Day earlier (but in no event more than five Business Days earlier) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne on the ARS. The MTA shall provide notice of its determination to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least 45 days prior to the proposed changed Auction Date to the Trustee, the Broker-Dealer, the Auction Agent and the DTC, which will, in turn, notify the Holders. In the event the Auction Agent specifies an earlier Auction Date, the day of the week on which an Auction Period begins and ends shall be adjusted accordingly.

(C) Conditions Precedent. No change in the length or the day of commencement of the Auction Period for the ARS (as provided in subsection (A) or (B), as applicable) shall be allowed unless Sufficient Clearing Bids exist at the Auction immediately preceding the proposed change and, in the sole discretion of the Broker-Dealer, at the Auction before the date on which the notice of the proposed change was given.

#### **ARTICLE XIV**

#### **BOND INSURANCE**

[TO COME]



IN WITNESS WHEREOF, the parties hereto have executed this Trust Indenture by their officers thereunto duly authorized as of the date first written above.

LOS ANGELES COUNTY METROPOLITAN  
TRANSPORTATION AUTHORITY

By \_\_\_\_\_  
Executive Officer, Finance and Treasurer

THE BANK OF NEW YORK  
TRUST COMPANY, N.A.,  
as Trustee

By \_\_\_\_\_  
Authorized Officer

**EXHIBIT A**  
**FORM OF SERIES 2005A BOND**

**EXHIBIT B**  
**FORM OF SERIES 2005B BOND**

**LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY  
Capital Grant Receipts Revenue Bonds  
(Gold Line Eastside Extension Project)**

**Term Sheet**

**I. GENERAL INFORMATION**

- The Issuer:** Los Angeles County Metropolitan Transportation Authority (“MTA”).
- The Bonds:** Approximately \$268,000,000 Capital Grant Receipts Revenue Bonds (the “Bonds”) issued under a Trust Indenture between the MTA and the Trustee. Interest on the Bonds is not subject to the payment of federal, state, and local income taxes. A portion of the Bonds will be issued as fixed rate bonds with interest payable on each April 1 and October 1, commencing October 1, 2005. Approximately \$100,000,000 of the Bonds will be issued as auction rate securities. The Bonds are scheduled to mature on October 1 in the years 2008 through 2012.
- Purpose of the Bonds:** The Bonds will be used for eligible capital costs related to the Gold Line Eastside Extension light rail project, including the acquisition, planning, and construction of the project.
- Ratings:** Moody’s Investors Services has given the Bonds a preliminary rating indication of “A3.” A rating for the Bonds is expected to be assigned by Moody’s upon the completion of a substantially final Trust Indenture.
- Underwriters:** Citigroup Global Markets, Inc., UBS Financial Services Inc., and Goldman Sachs & Co.
- Trustee:** The Bank of New York Trust Company, N.A.

## II. SECURITY

### Grant Receipts

The Bonds will be payable from and secured by a pledge of Grant Receipts, which are, collectively, the amounts received by the MTA from a Full Funding Grant Agreement with the Federal Transit Administration (the "FTA") and the MTA's share of amounts received from the FTA Section 5307 Urbanized Area Formula funds. The MTA has no parity debt outstanding.

The Full Funding Grant Agreement was approved in June 2004. The FTA has committed to provide a total of \$490.7 million for costs of the Gold Line Eastside Extension light rail project payable in accordance with the following schedule.

Federal Fiscal <u>Year</u>	Grant <u>Commitment</u>
Prior to 2005	\$ 17,300,000
2005	60,000,000
2006	80,000,000
2007	100,000,000
2008	80,000,000
2009	80,000,000
2010	73,400,000
Total	<u>\$490,700,000</u>

The MTA expects to receive annual payments under the Full Funding Grant Agreement in April of each federal fiscal year.

The MTA receives Section 5307 Grant Receipts for eligible transit capital and operating purposes according to population, population density, and other factors associated with transit service and ridership. The MTA has been awarded the following annual amounts of FTA Section 5307 Urbanized Area Formula funds for Fiscal Year 2001 through 2005.

Fiscal <u>Year</u>	Section 5307 <u>Allocation</u>
2001	\$116,135,544
2002	124,700,432
2003	143,053,148
2004	129,028,252
2005	140,634,423

The MTA expects to receive payments from the annual award of Section 5307 Grant Receipts in February of each Fiscal Year.

The MTA projects that the following annual amounts will be awarded to the MTA under the FTA Section 5307 Urbanized Area Formula program for Fiscal Year 2006 through 2010.

<u>Fiscal Year</u>	<u>Section 5307 Allocation</u>
2006	\$129,000,000
2007	138,000,000
2008	146,900,000
2009	157,900,000
2010	145,000,000

To the extent that, upon the deposit of amounts received under the Full Funding Grant Agreement, Section 5307 Grant Receipts exceed the amount required to be on deposit in the Interest Account and Principal Account, the Trustee shall release and remit any excess Section 5307 Grant Receipts to the MTA.

**Capitalized Interest  
Account:**

Proceeds of the Bonds will be used to fund a 2005 Capitalized Interest Account that is expected, together with interest earnings thereon, to pay interest on the Bonds through October 1, 2006.

**Debt Service Reserve  
Fund:**

A Debt Service Reserve Fund will be funded from proceeds of the Bonds to be held by the Trustee and used to make payments of principal and interest on the Bonds to the extent the amounts in the Interest Account or Principal Account are not sufficient to pay in full the interest or principal on the Bonds when due. The Debt Service Reserve Fund will be funded in an amount equal to the Debt Service Reserve Requirement, which shall be the least of (a) 10% of the original principal amount of the Bonds, (b) the Maximum Annual Debt Service Requirement on the Bonds or (c) 125% of the average Annual Debt Service Requirement on the Bonds.

**Full Funding Grant  
Receipts Construction  
Fund**

As further described in the flow of funds, amounts received under the Full Funding Grant Agreement that are not needed for payment of scheduled debt service will be deposited into a Full Funding Grant Receipts Construction Fund to be held by the Trustee for payment of eligible project costs.

**Flow of Funds:**

The MTA will deposit all Grant Receipts promptly with the Trustee. The Trustee is required to transfer monies as needed to the Interest Account and Principal Account created for the Bonds for payment of scheduled principal and interest on the Bonds payable during the next succeeding Fiscal Year. Remaining Grant Receipts will be transferred to the Reserve Fund to fund any deficiency in the Debt Service Reserve Requirement, then to the Full Funding Grant Receipts Construction Fund to be held by the Trustee for payment of eligible project costs. Any remaining Grant Receipts will be transferred to the Redemption Fund for the prepayment or redemption of Bonds prior to maturity in accordance with the terms of the Trust Indenture.

A flow of funds diagram is included as Exhibit A to the term sheet.

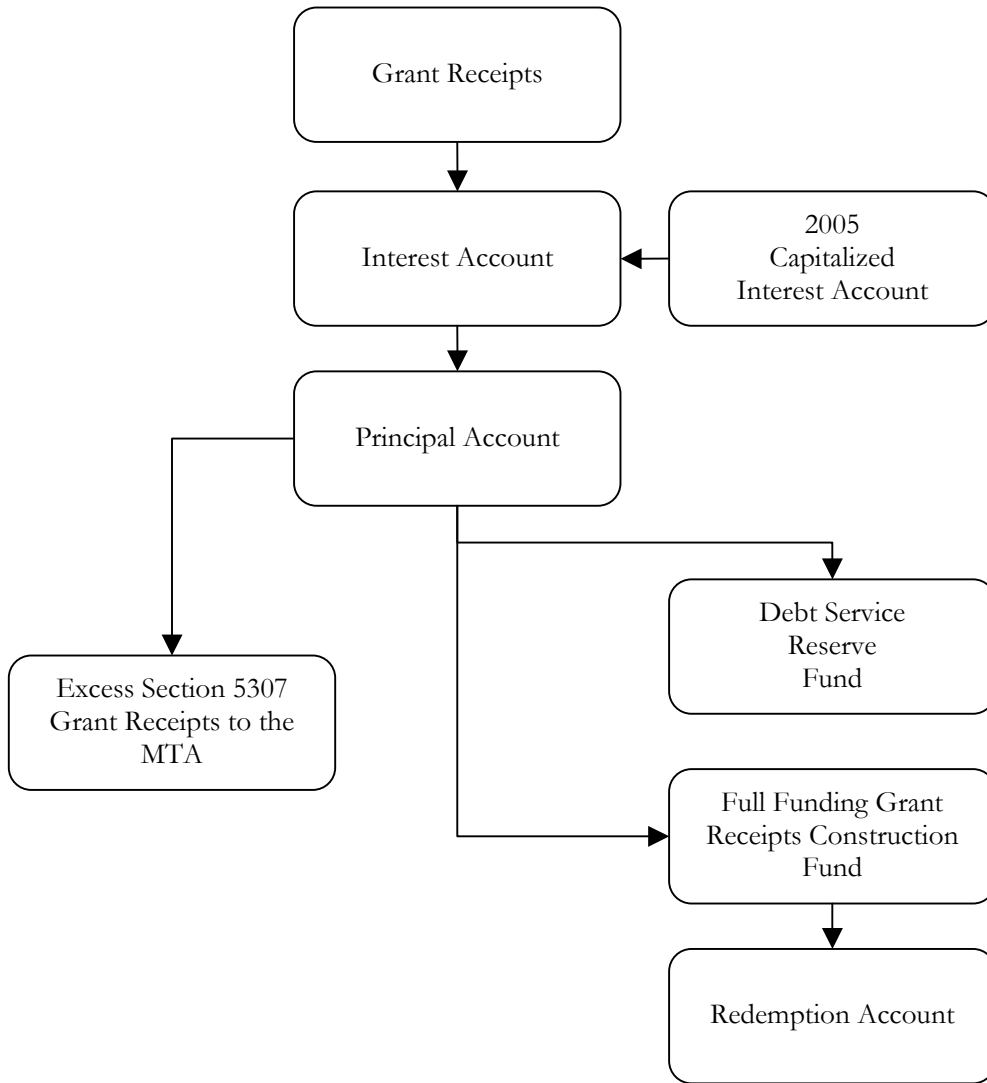
**Debt Service Coverage:**

The projected debt service coverage of Grant Receipts through the estimated maturity of the Bonds is included as Exhibit B to the term sheet.

**Additional Bonds:**

The MTA may issue additional bonds to refund the Bonds so long as annual debt service after the issuance of the additional bonds does not exceed annual debt service prior to the issuance of the refunding bonds.

**Exhibit A**  
**Flow of Funds**





**Exhibit B**  
**Projected Debt Service Coverage**

<u>Fiscal</u> <u>Year</u>	<u>Grant</u> <u>Receipts</u> <sup>(1)</sup>	<u>Debt</u> <u>Service</u> <sup>(2)</sup>	<u>Debt</u> <u>Service</u> <u>Coverage</u>
2006		-	-
2007	\$208,996,000	\$18,589,600	11.2
2008	237,972,000	43,702,325	5.4
2009	226,948,000	52,616,825	4.3
2010	237,896,000	82,837,163	2.9
2011	218,354,580	95,823,063	2.3
2012	146,968,848	-	-
Total		\$307,401,316	

---

<sup>(1)</sup> Grant Receipts deposited with Trustee during previous Fiscal Year.

<sup>(2)</sup> Estimated total debt service, net of capitalized interest. Assumes Bonds are redeemed prior to maturity.

## PRELIMINARY OFFICIAL STATEMENT DATED \_\_\_\_\_, 2005

NEW ISSUE – BOOK ENTRY ONLY

RATINGS: Moody's: \_\_\_\_\_

S&amp;P: \_\_\_\_\_

See "RATINGS" herein.

*In the opinion of Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel, under existing law, interest on the Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the tax covenants described herein, interest on the Bonds is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 from the gross income of the owners thereof for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. See, however, "TAX MATTERS" herein regarding certain other tax considerations.*

\$270,000,000\*

**LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY  
CAPITAL GRANT RECEIPTS REVENUE BONDS  
(GOLD LINE EASTSIDE EXTENSION PROJECT)**

\$ \_\_\_\_\_\*  
**Series 2005A**  
**(Fixed Rate Bonds)**

\$ \_\_\_\_\_\*  
**Series 2005B-1**  
**(Auction Rate Securities)**

\$ \_\_\_\_\_\*  
**Series 2005B-2**  
**(Auction Rate Securities)**

**Dated: Date of Delivery****Due: October 1, as shown on the inside cover**

The Los Angeles County Metropolitan Transportation Authority Capital Grant Receipts Revenue Bonds (Gold Line Eastside Extension Project), Series 2005A, Series 2005B-1 and Series 2005B-2 (collectively, the "Bonds"), are being issued pursuant to a Trust Indenture, dated as of \_\_\_\_\_ 1, 2005 (the "Indenture"), between the Los Angeles County Metropolitan Transportation Authority (the "MTA") and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"). The Bonds are deliverable in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Individual purchases of Bonds will be made in book entry form only through the facilities of DTC. Purchasers of Bonds will not receive bonds representing their beneficial ownership in the Bonds but will receive a credit balance on the books of their respective DTC Participants or DTC Indirect Participants. The Bonds will not be transferable or exchangeable except for transfer to another nominee of DTC or as otherwise described herein.

The 2005A Bonds will be delivered as fixed rate bonds in denominations of \$5,000 or any integral multiple thereof. Interest on the 2005A Bonds will be payable on April 1 and October 1 of each year, commencing [October 1, 2005].

The 2005B Bonds will be delivered as auction rate securities in denominations of \$25,000 or any integral multiple thereof. The 2005B Bonds will bear interest at Auction Rates initially for generally successive seven-day Auction Periods and interest will be payable on the business day immediately following each Auction Period. Each Auction Rate for the 2005B Bonds will be equal to the annual interest rate that results from the implementation of the Auction Procedures described in Appendix C hereto. Prospective purchasers of the 2005B Bonds should carefully review the Auction Procedures and should note that such procedures provide that (i) a Bid or Sell Order constitutes a commitment to purchase or sell based upon the result of an Auction and (ii) while 2005B Bonds are in a seven-day Auction Period, settlement for purchases and sales will be made on the Business Day following the Auction Period.

The Bonds are subject to optional redemption prior to maturity, without premium, as described herein.

**The Bonds are limited obligations of the MTA payable solely from and secured solely by Grant Receipts (as herein defined), amounts on deposit in the funds and accounts established under the Indenture (except the Rebate Fund), and investment earnings thereon. The Bonds are not a general obligation of the MTA, and the revenues of the MTA (other than as described above) are not pledged for the payment of the Bonds or the interest thereon. The Bonds are not an indebtedness or obligation of the State of California (the "State") or any political subdivision of the State (other than the MTA) or of any municipality within the State.**

Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by \_\_\_\_\_ simultaneously with the delivery of the Bonds.

[BOND INSURER LOGO]

The CUSIP numbers, maturities, amounts, interest rates, prices or yields and initial call dates of the Bonds of each series are set forth on the inside cover.

\* Preliminary; subject to change.

*The Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of validity thereof by Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by Nixon Peabody LLP, New York, New York, Underwriters' Counsel, and for the MTA by the Los Angeles County Counsel. The Bonds are expected to be delivered through the book-entry facilities of DTC on or about \_\_\_\_\_, 2005.*

**Citigroup**

**Goldman, Sachs & Co.**

**UBS Financial Services Inc.**

\_\_\_\_\_, 2005

**\$270,000,000\***  
**LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY**  
**CAPITAL GRANT RECEIPTS REVENUE BONDS**  
**(GOLD LINE EASTSIDE EXTENSION PROJECT)**

**MATURITY SCHEDULE**

\$ \_\_\_\_\_  
**Series 2005A**

<b>Maturity Date</b>	<b>Principal</b>	<b>Interest Rate</b>	<b>Yield</b>	<b>Initial Call Date</b>	<b>CUSIP Number</b>
<b><u>(October 1)</u></b>	<b><u>Amount</u></b>			<b><u>(October 1)</u></b>	<b><u>( )</u></b>

\$ \_\_\_\_\_  
**Series 2005B-1**

**Price: 100%**

<b>Initial</b>	<b>Auction Date</b>	<b>Initial Interest</b>	<b>Interest</b>	<b>Length of</b>	<b>Final</b>	<b>CUSIP</b>
<b><u>Auction Date</u></b>	<b><u>Generally</u></b>	<b><u>Payment Date</u></b>	<b><u>Payment Date</u></b>	<b><u>Initial Period</u></b>	<b><u>Maturity Date</u></b>	<b><u>Number</u></b>

\$ \_\_\_\_\_  
**Series 2005B-2**

**Price: 100%**

<b>Initial</b>	<b>Auction Date</b>	<b>Initial Interest</b>	<b>Interest</b>	<b>Length of</b>	<b>Final</b>	<b>CUSIP</b>
<b><u>Auction Date</u></b>	<b><u>Generally</u></b>	<b><u>Payment Date</u></b>	<b><u>Payment Date</u></b>	<b><u>Initial Period</u></b>	<b><u>Maturity Date</u></b>	<b><u>Number</u></b>

The 2005B Bonds will bear interest from the date of delivery for the initial period set forth above at the rate established by the Underwriters prior to the date of delivery thereof. Thereafter, the 2005B Bonds will bear interest at the Auction Rates for generally seven-day Auction Periods, until the length of the Auction Period is changed, as described herein. Interest will be payable on the initial Interest Payment Date set forth above and thereafter on the day following the end of each Auction Period for the 2005B Bonds.

\_\_\_\_\_ will act as the Auction Agent for the 2005B Bonds. Citigroup Global Markets Inc. and Goldman, Sachs & Co. will act as the initial Broker-Dealer for the 2005B-1 Bonds and 2005B-2 Bonds, respectively.

\* Preliminary; subject to change.

**[SYSTEM MAP]**

**LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY**

**Board Members**

Frank C. Roberts, *Chair*  
James K. Hahn, *First Vice Chair*  
Gloria Molina, *Second Vice Chair*

Michael D. Antonovich  
Yvonne Brathwaite Burke  
John Fasana  
Don Knabe  
Tom LaBonge  
Martin Ludlow  
Pam C. O'Connor  
Bonnie Lowenthal  
Ed Reyes  
Zev Yaroslavsky  
Doug Failing, *Ex-Officio Member*

**MTA Officers**

Roger Snoble  
*Chief Executive Officer*

John B. Catoe, Jr.  
*Deputy Chief Executive Officer*

Richard D. Brumbaugh  
*Chief Financial Officer*

Terry Matsumoto  
*Executive Officer, Finance  
and Treasurer*

**BOND COUNSEL**

Fulbright & Jaworski L.L.P.  
Los Angeles, California

**FINANCIAL ADVISOR**

Public Financial Management, Inc.  
Newport Beach, California

**TRUSTEE**

The Bank of New York Trust Company, N.A.  
Los Angeles, California

**In connection with this offering, the Underwriters may overallocate or effect transactions that stabilize or maintain the market prices of the Bonds at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriters may offer and sell the Bonds to certain dealers and others at prices lower than the public offering prices stated on the inside cover page of the Official Statement, and such public offering prices may be changed from time to time by the Underwriters.**

This Official Statement does not constitute an offer to sell the Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. No dealer, broker, salesman or other person has been authorized by the MTA or the Underwriters to give any information or to make any representation other than that contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized. Neither the delivery of this Official Statement nor the sale of any of the Bonds implies that the information herein is correct as of any time subsequent to the date hereof. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create the implication that there has been no change in the matters described herein since the date hereof.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. All summaries of statutes and documents are made subject to the provisions of such statutes and documents, respectively, and do not purport to be complete statements of any or all of such provisions.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with and as part of their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

This Official Statement contains forecasts, projections and estimates that are based on current expectations or assumptions. In light of the important factors that may materially affect the amount of Grant Receipts received, the inclusion in this Official Statement of such forecasts, projections and estimates should not be regarded as a representation by the MTA that such forecasts, projections and estimates will occur. Such forecasts, projections and estimates are not intended as representations of fact or guarantees of results.

If and when included in this Official Statement, the words “expects,” “forecasts,” “projects,” “intends,” “anticipates,” “estimates,” “assumes” and analogous expressions are intended to identify forward-looking statements, and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those that have been projected. Such risks and uncertainties which could affect the amount of Grant Receipts received include, among others, receipt of the required local share under the Grant Agreement, changes in political, social and economic conditions, federal, state and local statutory and regulatory initiatives, litigation, seismic events, and various other events, conditions and circumstances, many of which are beyond the control of the MTA. These forward-looking statements include, but are not limited to, certain statements contained in the information contained under the captions “THE GRANT AGREEMENT” and “FEDERAL TRANSIT PROGRAM” and such statements speak only as of the date of this Official Statement. The MTA disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statement contained herein to reflect any changes in the MTA’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

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## OFFICIAL STATEMENT

\$ \_\_\_\_\_ †  
**LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY  
CAPITAL GRANT RECEIPTS REVENUE BONDS  
(GOLD LINE EASTSIDE EXTENSION PROJECT)**

\$ \_\_\_\_\_ \*  
**Series 2005A  
(Fixed Rate Bonds)**

\$ \_\_\_\_\_ \*  
**Series 2005B-1  
(Auction Rate Securities)**

\$ \_\_\_\_\_ \*  
**Series 2005B-2  
(Auction Rate Securities)**

## INTRODUCTION

### General

The purpose of this Official Statement, which includes the cover page and appendices hereto (the “Official Statement”), is to provide certain information concerning the issuance by the Los Angeles County Metropolitan Transportation Authority (the “MTA”) of \$ \_\_\_\_\_\* aggregate principal amount of its Capital Grant Receipts Revenue Bonds (Gold Line Eastside Extension Project) Series 2005A (the “2005A Bonds”), \$ \_\_\_\_\_\* aggregate principal amount of its Capital Grant Receipts Revenue Bonds (Gold Line Eastside Extension Project) Series 2005B-1 (the “2005B-1 Bonds”) and \$ \_\_\_\_\_\* aggregate principal amount of its Capital Grant Receipts Revenue Bonds (Gold Line Eastside Extension Project) Series 2005B-2 (the “2005B-2 Bonds,” and together with the 2005B-1 Bonds, the “2005B Bonds”). The 2005A Bonds and the 2005B Bonds are collectively referred to herein as the “Bonds.”

The Bonds are to be issued pursuant to the laws of the State of California (the “State”), including Sections 130500 *et seq.* of the California Public Utilities Code (the “Act”). The Bonds are authorized by a resolution adopted by the MTA Board on \_\_\_\_\_, 2005, and are issued under and secured by a Trust Indenture, dated as of \_\_\_\_\_ 1, 2005 (the “Indenture”), between the MTA and The Bank of New York Trust Company, N.A., as trustee (the “Trustee”).

The Bonds are being issued to provide funds to finance a portion of the costs of the design and construction of a light rail transit line from Union Station in downtown Los Angeles to certain East Los Angeles communities, known as the “Gold Line Eastside Extension Project” (the “Project”). The Project is on schedule and within budget. Approximately \_\_\_\_% of the Project has been completed. See “THE PROJECT—Status of Project.”

### The MTA

The MTA was established in 1993, pursuant to the provisions of Sections 130050.2 *et seq.* of the California Public Utilities Code, as a consolidated successor entity to the Southern California Rapid Transit District (the “District”) and the Los Angeles County Transportation Commission (the “Commission”). The MTA succeeded to all powers, duties, rights, obligations, liabilities, indebtedness, bonded or otherwise, immunities and exemptions of the Commission and the District. See “THE AUTHORITY.”

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† Preliminary; subject to change.

## **Use of Bond Proceeds**

The proceeds of the Bonds will be applied to finance a portion of the costs of the Project, to fund a Debt Service Reserve Fund under the Indenture, to fund capitalized interest on the Bonds, and to pay certain costs of issuance of the Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS” and “THE PROJECT.”

## **Security for the Bonds**

The Bonds are limited obligations of the MTA payable solely from and secured solely by Grant Receipts (as herein defined), amounts on deposit in the funds and accounts under the Indenture (except the Rebate Fund), and investment earnings thereon. See “SECURITY FOR THE BONDS,” “THE GRANT AGREEMENT,” “FEDERAL TRANSIT PROGRAM” and “APPENDIX A—THE GRANT AGREEMENT.”

The Bonds are not a general obligation of the MTA, and the revenues of the MTA (other than as described herein) are not pledged for the payment of the Bonds or the interest thereon. The Bonds are not an indebtedness or obligation of the State or any political subdivision of the State (other than the MTA) or of any municipality within the State.

## **Federal Transit Programs**

Under the Capital Investment Grant and Loan Program (the “Capital Program”), 49 U.S.C. 5309 (“Section 5309”), the Secretary of Transportation may make grants to assist public bodies in financing capital projects for, among other things, new fixed guideway systems, and extensions to existing guideway systems (“New Starts”), which includes a light rail line, a rapid rail (heavy rail), commuter rail, an automated fixed guideway system, or a busway/high occupancy vehicle facility, or an extension of these projects. Pursuant to the New Starts program, the MTA entered into a Full Funding Grant Agreement (the “Grant Agreement”) with the U.S. Department of Transportation, Federal Transit Administration (the “FTA”), which provides for federal financial assistance in the form of grants to the MTA (the “Full Funding Grant Receipts”) to fund a portion of the costs of the Project. The Grant Agreement sets forth the requirements that must be satisfied by the MTA to receive and retain the Full Funding Grant Receipts and the conditional nature of the award of such funds. In total, the FTA has committed pursuant to the Grant Agreement a total of \$490,700,000 of Full Funding Grant Receipts to the Project, of which \$\_\_\_\_\_ has been received by the MTA to date, with an additional \$\_\_\_\_\_ appropriated by Congress, but has not yet been received by the MTA. The MTA expects to receive the remaining balance of the Full Funding Grant Receipts under the Grant Agreement (in the aggregate amount of \$\_\_\_\_\_) over the next \_\_\_ years. Pursuant to the Indenture, the MTA will deposit Full Funding Grant Receipts with the Trustee to pay debt service on the Bonds and replenish the Debt Service Reserve Fund, among other purposes. See “SECURITY FOR THE BONDS,” “THE PROJECT,” “THE GRANT AGREEMENT,” “FEDERAL TRANSIT PROGRAM—Section 5309 Capital Investment Grant Program for New Starts Projects” and “APPENDIX A—THE GRANT AGREEMENT.”

Under the Urbanized Area Formula Program, 49 U.S.C. 5307 (“Section 5307”), funds are made available to urbanized areas to finance capital, operating and planning assistance for mass transportation. See “FEDERAL TRANSIT PROGRAM—Section 5307 Urbanized Area Formula Program.” Pursuant to the Indenture, the MTA will deposit Section 5307 Grant Receipts with the Trustee to the extent needed to pay debt service on the Bonds. Unlike Full Funding Grant Receipts, Section 5307 Grant Receipts are not available to fund shortfalls in the Debt Service Reserve Fund. See “SECURITY FOR THE BONDS.”

## **Bond Insurance**

Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy (“Bond Insurance Policy”) to be issued by \_\_\_\_\_ simultaneously with the delivery of the Bonds. See “BOND INSURANCE.”

## **Certain References**

The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document for complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each document. All capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in “APPENDIX B—SUMMARY OF THE INDENTURE—Definitions of Certain Terms” or, if not defined therein, in the Indenture.

## **THE BONDS**

### **General Provisions of the 2005A Bonds**

The 2005A Bonds will be dated the date of delivery thereof and will bear interest from their dated date at the rates per annum set forth on the inside front cover of this Official Statement (calculated on the basis of a 360-day year consisting of twelve 30-day months), payable on [October 1, 2005] and semiannually thereafter on April 1 and October 1 of each year to the registered owners thereof as of the close of business on the fifteenth day prior to such interest payment date. The 2005A Bonds will mature on October 1 in the years and in the principal amounts set forth on the inside cover page of this Official Statement. The 2005A Bonds will be issued as fully registered bonds in denominations of \$5,000 or in any integral multiple thereof.

### **General Provisions of the 2005B Bonds**

The 2005B Bonds will be dated the date of delivery thereof and will mature on the date shown on the inside cover page of this Official Statement. The 2005B Bonds will bear interest at an Auction Rate. Initially, the Auction Rate for the 2005B Bonds will be determined for successive 7-day Auction Periods, each through the implementation of the Auction Procedures summarized under “APPENDIX C—ARS PROVISIONS.” Certain of the defined terms used herein are defined in Appendix C. The Maximum Interest Rate for the 2005B Bonds permitted under the Indenture is currently [12]% per annum and the Applicable ARS Rate cannot exceed the Maximum Interest Rate. The 2005B Bonds will be issued as fully registered bonds in denominations of \$25,000 and integral multiples thereof.

### **Interest on the 2005B Bonds**

***Interest Payments.*** Interest on the 2005B Bonds shall accrue for each Interest Period and shall be payable in arrears, on each succeeding Interest Payment Date. An “Interest Payment Date” for the 2005B Bonds means the Business Day following the last day of each Auction Period, and in all cases on the maturity of the 2005B Bonds, whether at stated maturity, a redemption date, or otherwise. For the 2005B-1 Bonds, “Interest Period” means, unless otherwise changed as described under “Adjustments of ARS Provisions” below, the period commencing on the date of the original issuance of the 2005B Bonds and ending on the next [Tuesday] at least seven days after such original issuance and each successive period of generally seven days therefor, commencing on a [Wednesday] (or the day following the last day of the prior Interest Period, if the prior Interest Period does not end on a [Tuesday]) and ending on a [Tuesday] (unless the day following such [Tuesday] is not a Business Day, in which case on the next

succeeding day that is followed by a Business Day). For the 2005B-2 Bonds, “Interest Period” means, unless otherwise changed as described under “Adjustments of ARS Provisions” below, the period commencing on the date of the original issuance of the 2005B Bonds and ending on the next [Tuesday] at least seven days after such original issuance and each successive period of generally seven days thereafter, commencing on a [Wednesday] (or the day following the last day of the prior Interest Period, if the prior Interest Period does not end on a [Tuesday]) and ending on a [Tuesday] (unless the day following such [Tuesday] is not a Business Day, in which case on the next succeeding day that is followed by a Business Day). Interest Payment Dates may change in the event of a change in the length or date of commencement of one or more Auction Periods.

Interest during any Auction Period (including the Initial Auction Period) shall be computed by the Trustee on the basis of a 360-day year for the number of days actually elapsed.

***Auction Rate.*** The rate of interest on the 2005B Bonds for each Interest Period shall be the Auction Rate, which is equal to the rate of interest per annum on any Auction Date that results from implementation of the Auction Procedures described in the Indenture (the “Applicable ARS Rate”) unless the Auction Rate would exceed the Maximum ARS Rate, in which case the rate of interest shall be the Maximum ARS Rate; provided that if on any Auction Date, an Auction is not held and one should have been held, then the rate of interest for the next succeeding Interest Period shall equal the same rate as in effect on such Auction Date for the next Auction Period, which shall be the same length as the current Interest Period. Notwithstanding the foregoing, (i) if the ownership of the 2005B Bonds is no longer maintained in book-entry form by DTC, the rate of interest on the 2005B Bonds for any Interest Period commencing after the delivery of certificates representing 2005B Bonds shall equal the Maximum ARS Rate, as determined by the Trustee or (ii) if a Payment Default occurs, Auctions will be suspended and the interest rate for the Interest Period commencing on or after such Payment Default and for each Interest Period thereafter to and including the Interest Period, if any, during which, or commencing less than two Business Days after, such Payment Default is cured will equal the Default Rate, as determined by the Trustee. Notwithstanding anything herein to the contrary, the Applicable ARS Rate shall not exceed the Maximum Interest Rate.

## **Auction Participants**

***Existing Holders and Potential Holders.*** Participants in each Auction will include (i) “Existing Holders,” which shall mean (a) with respect to and for the purpose of dealing with the Auction Agent in connection with an Auction, a person who is a Broker-Dealer listed in the Existing Holder registry at the close of business on the Business Day immediately preceding the Auction Date for such Auction and (b) with respect to and for the purpose of dealing with the Broker-Dealer in connection with an Auction, a person who is a beneficial owner of 2005B Bonds, and (ii) “Potential Holders,” which shall mean any person (including an Existing Holder that is (a) a Broker-Dealer when dealing with the Auction Agent and (b) a potential beneficial owner when dealing with a Broker-Dealer) who may be interested in acquiring 2005B Bonds (or, in the case of an Existing Holder thereof, an additional principal amount of 2005B Bonds).

By purchasing 2005B Bonds, whether in an Auction or otherwise, each prospective purchaser or its Broker-Dealer must agree and will be deemed to have agreed: (i) to participate in Auctions on the terms set forth in Appendix C hereto; (ii) so long as the beneficial ownership of the 2005B Bonds is maintained in book-entry form by DTC, to sell, transfer or otherwise dispose of 2005B Bonds only pursuant to a Bid or a Sell Order in an Auction, or to or through a Broker-Dealer, provided that in the case of all transfers other than those pursuant to an Auction, the Existing Holder of 2005B Bonds and the 2005B Bonds so transferred, its Participant or its Broker-Dealer advises the Auction Agent of such transfer; and (iii) to have its beneficial ownership of 2005B Bonds maintained at all times in book-entry

form by the Securities Depository for the account of its Participants, which in turn will maintain records of such beneficial ownership, and to authorize such Participants to disclose to the Auction Agent such information with respect to such beneficial ownership as the Auction Agent may request.

**Auction Agent.** \_\_\_\_\_ is appointed as the initial Auction Agent for the 2005B Bonds. The Trustee is directed by the MTA to enter into the initial Auction Agency Agreement with \_\_\_\_\_. The Auction Agent shall be (i) a bank or trust company duly organized under the laws of the United States of America or any state or territory thereof, and having a combined capital stock, surplus and undivided profits of at least \$50,000,000 or (ii) a member of the National Association of Securities Dealers, Inc., having a capitalization of at least \$50,000,000 and, in either case, authorized by law to perform all the duties imposed upon it under the Indenture and under the Auction Agency Agreement and approved by the Bond Insurer. The Auction Agent may resign and be discharged of the duties and obligations created by the Indenture by giving at least 90 days' written notice to the MTA, the Trustee and the Bond Insurer (30 days' written notice if the Auction Agent has not been paid its fee for more than 30 days, and upon the expiration of such 30-day period, the Auction Agent may resign even if a successor Auction Agent has not been appointed). The Auction Agent may be removed upon written notice to the Trustee, the MTA and the Bond Insurer on the date specified in such notice, which date shall be no earlier than 90 days after the date of delivery of such notice; provided, however, that the Auction Agent may be removed at any time (i) for cause (as determined by the Bond Insurer) by the Bond Insurer or (ii) with the prior written consent of the Bond Insurer (which consent shall not be unreasonably withheld) by the Trustee if the Auction Agent is an entity other than the Trustee, acting at the direction of the MTA or the holders of 66 2/3% of the aggregate principal amount of the 2005B Bonds; provided that, if required by the Market Agent, an agreement in substantially the form of the Auction Agency Agreement shall be entered into with a successor Auction Agent. If the Auction Agent and the Trustee are the same entity, the Auction Agent may be removed as described above, with the MTA acting in lieu of the Trustee.

If the Auction Agent shall resign or be removed or dissolved, or if the property or affairs of the Auction Agent shall be taken under the control of any state or federal court or administrative body because of bankruptcy or insolvency, or for any other reason, the MTA shall use its best efforts to appoint a successor as Auction Agent, and the Trustee shall thereupon enter into an Auction Agency Agreement with such successor.

The Auction Agent is acting solely as Auction Agent under the Auction Agency Agreement and owes no fiduciary duties to any person by reason of the Auction Agency Agreement. In the absence of willful misconduct or negligence on its part, the Auction Agent shall not be liable for any action taken, suffered or omitted or for any error of judgment made by it in the performance of its duties under the Auction Agency Agreement and shall not be liable for any error of judgment made in good faith unless the Auction Agent shall have been negligent in ascertaining (or failing to ascertain) the pertinent facts.

**Broker-Dealers.** Existing Holders and Potential Holders may participate in Auctions only by submitting orders (in the manner described below) through a "Broker-Dealer," including Citigroup Global Markets Inc. as the sole initial Broker-Dealer for the 2005B-1 Bonds and Goldman, Sachs & Co. as the sole initial Broker-Dealer for the 2005B-2 Bonds, or any other broker or dealer (each as defined in the Securities Exchange Act of 1934, as amended), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth in the Indenture that (i) is a "Participant" (i.e., a member of, or participant in, DTC or any successor securities depository) or an affiliate of a Participant, (ii) has a capital surplus of at least \$50,000,000, (iii) has been selected by the MTA with the approval of the Market Agent (which approval shall not be unreasonably withheld) and (iv) has entered into a Broker-Dealer Agreement with the Auction Agent that remains effective, in which the Broker-Dealer agrees to

participate in Auctions as described in the Auction Procedures, as from time to time amended or supplemented.

### **Auctions**

Auctions to establish the Auction Rate for the 2005B Bonds are to be held on each Auction Date, except as described above under “Interest on the 2005B Bonds–*Auction Rate*,” by application of the Auction Procedures described in Appendix C. Notwithstanding the foregoing, the Auction Date for one or more Auction Periods may be changed as described below under “Changes in Auction Periods or Auction Date -- *Changes in Auction Period or Periods*.”

The Auction Agent shall determine the All-Hold Rate on each Auction Date. If the ownership of the 2005B Bonds is no longer maintained in book-entry form by DTC, no further Auctions will be held and the interest rate on the 2005B Bonds for each subsequent Interest Period will equal the Maximum ARS Rate. If a Payment Default shall have occurred, the Trustee shall announce the Default Rate on the first day of (i) each Interest Period commencing after the occurrence and during the continuance of such Payment Default and (ii) any Interest Period commencing less than two Business Days after the cure of any Payment Default.

So long as the ownership of the 2005B Bonds is maintained in book-entry form by DTC, an Existing Holder may sell, transfer or otherwise dispose of its beneficial interest in 2005B Bonds only pursuant to a Bid or Sell Order placed in an Auction or through a Broker-Dealer, provided that, in the case of all transfers other than pursuant to Auctions, such Existing Holder, its Broker-Dealer or its Participant advises the Auction Agent of such transfer.

Auctions shall be conducted on each Auction Date, if there is an Auction Agent and Broker-Dealer on such Auction Date, in the manner described in Appendix C. A description of the Settlement Procedures to be used with respect to Auctions is contained in Attachment B of Appendix C.

### **Adjustments of ARS Provisions**

The Auction provisions in the Indenture may be amended by the MTA (i) upon obtaining Counsel’s Opinion that the same does not materially adversely affect the rights of the Beneficial Owners of the 2005B Bonds or (ii) by obtaining the consent of a majority of the Beneficial Owners of the 2005B Bonds and, in each case, delivering a Favorable Opinion of Bond Counsel. In the case of clause (ii) above, the Trustee shall mail notice of such amendment to the Beneficial Owners of the 2005B Bond Owners of which it has knowledge and if, on the first Auction Date occurring at least 20 days after the date on which the Trustee mailed such notice, Sufficient Clearing Bids have been received or all of the 2005B Bonds are subject to Submitted Hold Orders and if the Bond Insurer has provided written consent by such Auction Date, the proposed amendment shall be deemed to have been consented to by the Beneficial Owners of the 2005B Bonds. Written notice of each such amendment shall be delivered by the MTA to the Trustee, the Auction Agent and each Broker-Dealer.

### **Certain Auction Risks**

Existing Holders may not be able to sell some or all of their 2005B Bonds at an Auction if the Auction fails; that is, if there are more 2005B Bonds offered for sale than there are buyers for those securities. Also, if Existing Holders place Hold orders (orders to retain their 2005B Bonds) at an Auction only at a specified rate, and if that specified rate exceeds the rate set at the Auction, such Existing Holders will not retain their 2005B Bonds. If Existing Holders submit a hold order for 2005B Bonds without

specifying a minimum rate, and the Auction sets a below-market rate, such Existing Holders may receive a below-market rate of return on their 2005B Bonds. See “Auctions” above.

As noted above, if there are more 2005B Bonds offered for sale than there are buyers for those securities in any Auction, the Auction will fail and such Existing Holders may not be able to sell some or all of their 2005B Bonds at that time. The relative buying and selling interest of market participants in the 2005B Bonds and in the auction rate securities market as a whole will vary over time, and such variations may be affected by, among other things, news relating to the MTA, the attractiveness of alternative investments, the perceived risk of owning the security (whether related to credit, liquidity or any other risk), the tax treatment accorded the instruments, the accounting treatment accorded auction rate securities, including recent clarifications of U.S. generally accepted accounting principles relating to the treatment of auction rate securities, reactions to regulatory actions or press reports, financial reporting cycles and market sentiment generally. Shifts of demand in response to any one or simultaneous particular events cannot be predicted and may be short-lived or exist for longer periods.

A Broker-Dealer may submit orders in Auctions for its own account. Any Broker-Dealer submitting an order for its own account in any Auction will have an advantage over other bidders in that it would have knowledge of other orders placed through it in that Auction (but it would not have knowledge of orders submitted by other Broker-Dealers, if any). As a result of the Broker-Dealer bidding, the Auction clearing rate may be higher or lower than the rate that would have prevailed if the Broker-Dealer had not bid. A Broker-Dealer may also bid in order to prevent what would otherwise be a failed Auction, an “All-Hold” Auction (if the Broker-Dealer owns securities in its own account) or an Auction clearing at a rate that the Broker-Dealer believes does not reflect the market for such securities at the time of the Auction. Broker-Dealers may, but are not obligated to, advise holders of the 2005B Bonds that the rate that will apply in an “All-Hold” Auction is often a lower rate than would apply if holders submit Bids, and such advice, if given, may facilitate the submission of Bids by Existing Holders that would avoid the occurrence of an “All-Hold” Auction. A Broker-Dealer may, but is not obligated to, encourage additional or revised investor bidding in order to prevent an “All-Hold” Auction.

The Underwriters have advised the MTA that the Underwriters and various other broker-dealers and other firms that participate in the auction rate securities market received letters from the staff of the Securities and Exchange Commission (the “SEC”) in the spring of 2004. The letters requested that each of these firms voluntarily conduct an investigation regarding its respective practices and procedures in that market. Pursuant to these requests, each of the Underwriters conducted its own voluntary review and reported its findings to the SEC staff. At the SEC staff’s request, the Underwriters are engaging in discussions with the SEC staff concerning its inquiry. Neither the Underwriters nor the MTA can predict the ultimate outcome of the inquiry or how that outcome will affect the market for the 2005B Bonds or the Auctions.

### **Redemption Prior to Maturity**

[TO COME]

### **Selection of Bonds to be Redeemed**

In the event of the redemption of Bonds or Additional Bonds by operation of the Redemption Account, if the amount then held in the Redemption Account is not sufficient to redeem all of the Bonds and Additional Bonds then eligible for redemption by operation of the Redemption Account, then the Trustee will proceed to select such Bonds to be redeemed from moneys then held in the Redemption Account by designating for redemption such Bonds next to mature that are then eligible for redemption by operation of the Redemption Account (such designation to be made without priority of any Series over

any other Series) and with respect to such Bonds having the same maturity date, the Bonds bearing interest at the highest interest rate, and with respect to such Bonds maturing on the same date and bearing interest at the same rate, at random in the manner provided in the Indenture. See “APPENDIX B—SUMMARY OF THE INDENTURE—Debt Service Fund.”

In the event of the redemption of Bonds or Additional Bonds otherwise than by operation of the Redemption Account, at the election or direction of the MTA, the MTA shall give written notice to the Trustee of its election or direction so to redeem, of the date fixed for redemption, of the Series, and of the principal amounts of the Bonds of each maturity of such Series to be redeemed. Such notice shall be given at least 45 days prior to the specified redemption date or such shorter period as shall be acceptable to the Trustee.

### **Notice of Redemption**

Notice of any redemption of Bonds will be mailed by the Trustee by first class mail to the registered owners of any Bonds designated for redemption at least 30 but not more than 60 days prior to the redemption date (but failure of any registered owner to receive any such shall not affect the sufficiency of the redemption proceedings.) Notice of any redemption may be conditioned upon the receipt of moneys by the Trustee on or prior to the redemption date.

### **Book-Entry-Only System**

As noted above, DTC will act as securities depository for the Bonds. See “APPENDIX E—DTC AND THE BOOK-ENTRY-ONLY SYSTEM.”

Payments of interest on and principal of the Bonds will be made to DTC or its nominee, Cede & Co., as registered owner of the Bonds. Each such payment to DTC or its nominee will be valid and effective to fully discharge all liability of the MTA or the Trustee with respect to interest on and principal of the Bonds to the extent of the sum or sums so paid.

The MTA and the Trustee cannot and do not give any assurances that DTC Participants or DTC Indirect Participants will distribute to the beneficial owners (i) payments of interest and principal with respect to the Bonds, (ii) confirmation of ownership interests in the Bonds, or (iii) redemption or other notices sent to DTC or Cede & Co., its nominee, as Owner of the Bonds, or that they will do so on a timely basis.

### **Transfers and Exchanges of Bonds Upon Abandonment of Book-Entry-Only System**

The Owners of the Bonds have no right to the appointment or retention of a depository for such Bonds. DTC may resign or be removed as securities depository under the conditions provided in the Letter of Representations from the MTA to DTC. In the event of any such resignation or removal, the MTA shall (i) appoint a successor securities depository, qualified to act as such under Section 17(a) of the Securities Exchange Act of 1934, as amended, notify DTC of the appointment of such successor securities depository and transfer or cause the transfer of one or more separate Bond certificates to such successor securities depository or (ii) notify DTC of the availability through DTC of Bond certificates to DTC Participants having Bonds credited to their DTC accounts. In such event, the Bonds will no longer be restricted to being registered in the name of Cede & Co., as nominee of DTC, but may be registered in the name of the successor securities depository, or its nominee, or in whatever name or names the DTC Participants receiving Bonds shall designate, in accordance with the provisions of the Indenture.



## SECURITY FOR THE BONDS

**The Bonds are limited obligations of the MTA and are payable solely from and secured solely by Grant Receipts (as herein defined), amounts on deposit in the funds and accounts established under the Indenture (except the Rebate Fund), and investment earnings thereon. The Bonds are not a general obligation of the MTA and the revenues of the MTA (other than as described above) are not pledged for the payment of the Bonds or the interest thereon. The Bonds are not an indebtedness or obligation of the State or any political subdivision of the State (other than the MTA) or of any municipality within the State.**

### **Pledge of Grant Receipts**

The Indenture pledges for the payment of the principal and Redemption Price of, and interest on, the Bonds and Additional Bonds in accordance with their terms and the provisions of the Indenture, and a lien is thereby granted for such purpose, subject only to the provisions of the Indenture permitting or requiring the application thereof for the purposes and on the terms and conditions set forth in the Indenture, (i) the Grant Receipts (as described below), (ii) amounts on deposit in all Funds, Accounts and Sub-Accounts established under the Indenture (except the Rebate Fund), and (iii) any and all other moneys and securities furnished from time to time to the Trustee by the MTA or on behalf of the MTA or by any other persons to be held by the Trustee under the terms of the Indenture.

The term “Grant Receipts” is defined in the Indenture to mean, collectively, the Full Funding Grant Receipts and the Section 5307 Grant Receipts. Full Funding Grant Receipts means any amount received by the MTA from Section 5309 New Starts funds pursuant to the Grant Agreement. See “THE GRANT AGREEMENT” and APPENDIX A—THE GRANT AGREEMENT.” Section 5307 Grant Receipts mean all amounts received by the MTA from its share of FTA Section 5307 (49 U.S.C. Section 5307) Urbanized Area Formula funds. See “FEDERAL TRANSIT PROGRAM—Section 5307 Urbanized Area Formula Program.”

## Anticipated Grant Receipts

The following table outlines the anticipated schedule of Grant Receipts from and after the Federal Fiscal Year (October 1 through September 30) ending September 30, 2005:

**TABLE 1**  
**ANTICIPATED GRANT RECEIPTS\***

<u>Federal Fiscal Year</u>	<u>Anticipated Full Funding Grant Receipts</u>	<u>Anticipated Section 5307 Grant Receipts</u>	<u>Total Anticipated Grant Receipts</u>
2005	\$ 60,000,000	\$ 140,600,000	\$ 200,600,000
2006	80,000,000	129,000,000	209,000,000
2007	100,000,000	138,000,000	238,000,000
2008	80,000,000	146,900,000	226,900,000
2009	80,000,000	157,900,000	237,900,000
2010	0	145,000,000	145,000,000
2011	0	147,000,000	147,000,000
2012	<u>0</u>	<u>149,100,000</u>	<u>149,100,000</u>
Total	\$400,000,000	\$1,153,500,000	\$1,553,500,000

\* Receipt by the MTA of Grant Receipts is subject to annual appropriation by Congress. The MTA cannot provide any assurance that Congress will appropriate the full amount anticipated in total or in any given year. See "THE GRANT AGREEMENT," FEDERAL TRANSIT PROGRAM" and "SPECIAL INVESTMENT CONSIDERATIONS—Uncertainties in Federal Funding."

## Flow of Funds

**Full Funding Grant Receipts.** The Indenture requires all Full Funding Grant Receipts received by the MTA to be deposited promptly with the Trustee. The Trustee is then required, as soon as practicable, to deposit the Full Funding Grant Receipts into the following Funds and Accounts established under the Indenture:

First: Into the Interest Account, to the extent, if any, necessary to increase the amount in the Interest Account so that it equals the Interest Requirement for all Outstanding Bonds for the succeeding Fiscal Year (interest on the Bonds to be paid from moneys in the 2005 Capitalized Interest Account is excluded from the calculation of Interest Requirement).

Second: Into the Principal Account, to the extent, if any, needed to increase the amount in the Principal Account so that it equals the Principal Requirement for all Outstanding Bonds for the succeeding Fiscal Year.

Third: Into the Debt Service Reserve Fund, to the extent, if any, needed to increase the amount in the Debt Service Reserve Fund so that it equals the Debt Service Reserve Requirement.

Fourth: To the MTA, an amount specified by the MTA in a certificate of an Authorized Officer filed by the Trustee as needed to reimburse a provider of a Debt Reserve Credit Facility for disbursements thereunder.

Fifth: Into the Rebate Fund, an amount specified by the MTA in a certificate of an Authorized Officer filed with the Trustee as needed to pay any rebate liability with respect to the Bonds.

Sixth: Into the Full Funding Grant Receipts Construction Fund, an amount specified by the MTA in a certificate of an Authorized Officer filed with the Trustee certifying that the total remaining amount the MTA expects to receive under the Grant Agreement after such deposit will be equal to at least 105% of the debt service payable on the Outstanding Bonds, assuming such Bonds are paid on their stated maturity dates [and that interest on the 2005B Bonds accrues at a rate per annum equal to the BMA Index].

Seventh: Into the Redemption Account, any remaining amounts.

**Section 5307 Grant Receipts.** The Indenture requires all Section 5307 Grant Receipts received by the MTA to be deposited promptly with the Trustee. The Trustee is then required, as soon as practicable, to deposit the Section 5307 Grant Receipts into the Interest Account and the Principal Accounts as follows:

First: Into the Interest Account, to the extent, if any, necessary to increase the amount in the Interest Account so that it equals the Interest Requirement for all Outstanding Bonds for the succeeding Fiscal Year.

Second: Into the Principal Account, to the extent, if any, needed to increase the amount in the Principal Account so that it equals the Principal Requirement for all Outstanding Bonds for the succeeding Fiscal Year.

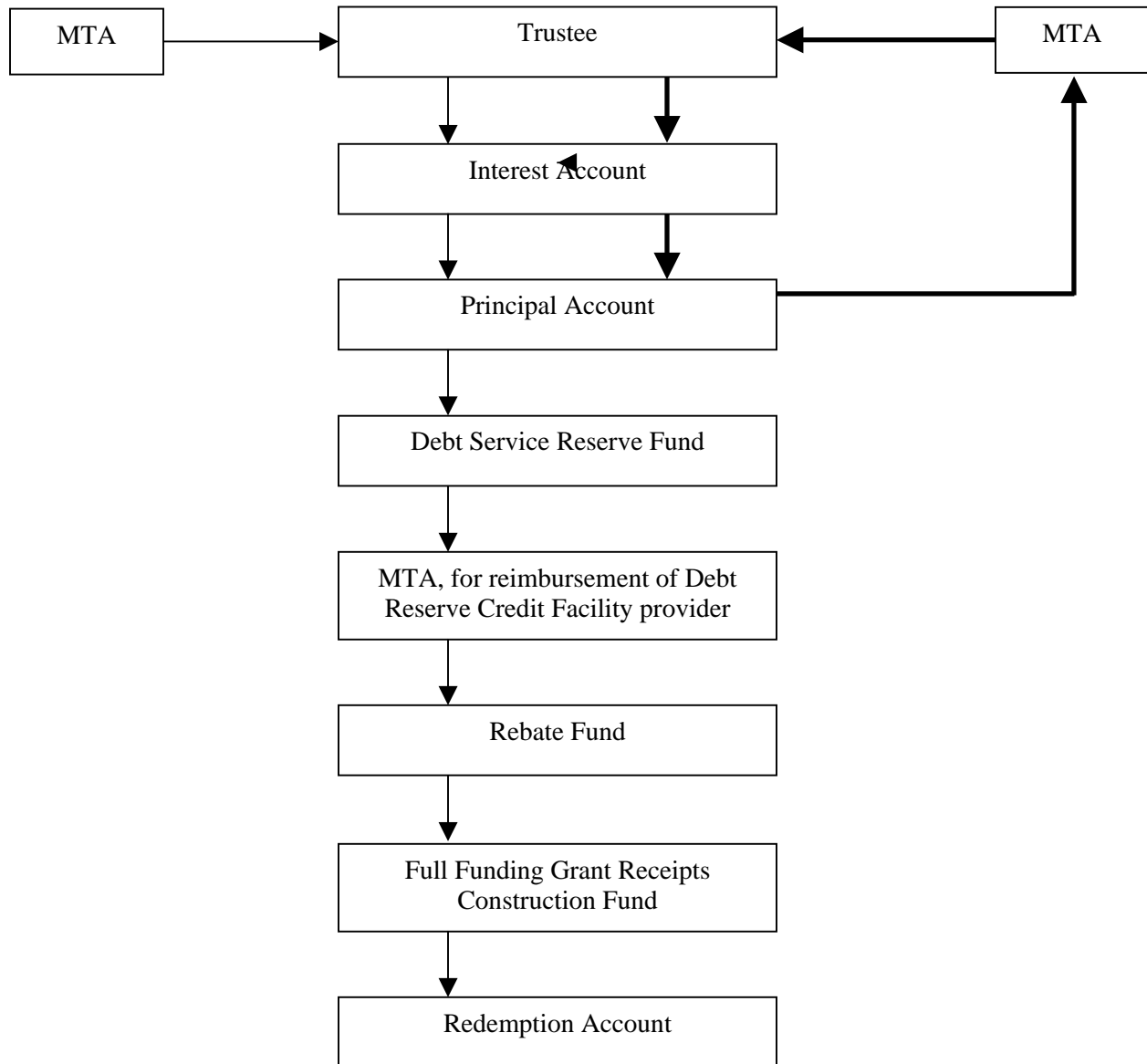
The Trustee shall release and remit the remaining Section 5307 Grant Receipts to the MTA, free and clear from the lien of the Indenture.

**Deposit of Full Funding Grant Receipts to Replace Section 5307 Grant Receipts.** Notwithstanding the provisions described above, if the MTA deposits with the Trustee any Full Funding Grant Receipts while Section 5307 Grant Receipts are on deposit in the Interest Account or the Principal Account and the total amount of Grant Receipts exceeds the amount then required to be on deposit in the Interest Account and the Principal Account, then the Indenture requires the Trustee to substitute such Full Funding Grant Receipts, first in the Interest Account and then in the Principal Account, as available, for the Section 5307 Grant Receipts held therein (but in each case only to the extent that the resulting amounts on deposit in the Interest Account and the Principal Account do not fall below the respective amounts then required to be on deposit therein) and the Trustee shall release and remit such substituted Section 5307 Grant Receipts to the MTA, free and clear from the lien of the Indenture.

The Grant Receipts flow of funds specified by the Indenture is summarized in the chart below. See “APPENDIX B—SUMMARY OF THE INDENTURE.”

**Full Funding Grant Receipts**

**Section 5307 Grant Receipts**



**Debt Service Reserve Fund**

A Debt Service Reserve Fund is established under the Indenture and the balance therein is required to be maintained in an amount at least equal to the Debt Service Reserve Requirement. As of the date of issuance of the Bonds, the Debt Service Reserve Requirement for the Bonds is expected to be \$\_\_\_\_\_. Although the Debt Service Reserve Fund is expected to be fully funded with cash on the date the Bonds are issued, the MTA may satisfy the Debt Service Reserve Requirement by delivering to the Trustee in lieu of such deposit a Debt Reserve Credit Facility. Any deficiencies in the Debt Service Reserve Fund may be replenished only from Full Funding Grant Receipts or by the deposit of a Debt

Reserve Credit Facility. Section 5307 Grant Receipts are not available to replenish deficiencies in the Debt Service Reserve Fund. See “Flow of Funds” above and “APPENDIX B—SUMMARY OF THE INDENTURE—Debt Service Reserve Fund.”

### **Capitalized Interest Account**

On the date of issuance of the Bonds, the MTA will deposit into the Capitalized Interest Account an amount of Bond proceeds sufficient, together with anticipated interest earnings, to pay interest on the Bonds through October 1, 2006.

### **Additional Bonds**

One or more Series of Additional Bonds may be issued on a parity with the Bonds, but only for refunding purposes and only upon compliance by the MTA with certain provisions of the Indenture, which include, among other things, the requirement that the MTA deliver to the Trustee a certificate evidencing that for each Bond Year ending on or prior to the latest maturity date of any then outstanding Bond or Additional Bond, the Annual Debt Service Requirements for any such Bond Year on account of all Bonds and Additional Bonds, including the Additional Bonds then being issued, after the redemption or provision for payment of the Bonds to be refunded, shall not exceed the Annual Debt Service Requirements for the corresponding Bond Years on account of all the Bonds and Additional Bonds outstanding, including the Bonds to be refunded, immediately prior to the issuance of such Additional Bonds. In applying this test, if any Additional Bonds constitute Optional Tender Bonds or Variable Rate Bonds, certain provisions set forth in the Indenture shall be applied in determining the Annual Debt Service Requirements of such Bonds. See “APPENDIX B—SUMMARY OF THE INDENTURE—Additional Bonds.”

Nothing in the Indenture shall prohibit or prevent the MTA from issuing bonds, certificates or other evidences of indebtedness payable as to principal and interest from Grant Receipts, but only if such indebtedness is junior and subordinate in all respects to any and all Bonds issued and outstanding under the Indenture.

### **Investments**

All amounts held under the Indenture are invested at the direction of the MTA in Investment Securities, as defined in the Indenture, and are subject to certain limitations contained therein. See “APPENDIX B—SUMMARY OF THE INDENTURE—Investment of Certain Moneys.”

## **BOND INSURANCE**

*The following information has been provided by \_\_\_\_\_ (the “Bond Insurer”) for use in this Official Statement. Reference is made to Appendix G for a specimen of the Bond Insurance Policy. The MTA does not make any representation as to the accuracy or completeness of this information or as to the absence of material adverse changes in this information subsequent to the date hereof.*

[TO COME]

## ESTIMATED SOURCES AND USES OF FUNDS

### Sources of Funds

Par Amount of Bonds

Total Sources of Funds

### Uses of Funds

Construction Fund

Debt Service Reserve Fund

Capitalized Interest Account<sup>(1)</sup>

Bond Insurance Premium

Underwriters' Discount

Costs of Issuance

Total Uses of Funds

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<sup>(1)</sup> Scheduled interest on the Bonds will be funded through October 1, 2006 with Bond proceeds deposited in the Capitalized Interest Account and interest earnings thereon.

## DEBT SERVICE REQUIREMENTS

The following table sets forth the debt service on the Bonds:

### Debt Service Schedule

<u>Period</u> <u>Ending</u>	<u>Principal</u>	<u>Interest</u> <sup>(1)</sup>	<u>Total</u> <u>Debt Service</u>	<u>Annual</u> <u>Debt Service</u>
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### TOTAL

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<sup>(1)</sup> Assumes the 2005B Bonds will bear interest at an average rate of \_\_\_% per annum. Scheduled interest on the Bonds will be funded through October 1, 2006 with Bond proceeds deposited in the Capitalized Interest Account and interest earnings thereon.

## THE PROJECT

The Metro Gold Line Eastside Extension will be a six-mile, dual track light rail system with eight new stations and one station modification. The system will originate at Union Station in downtown Los Angeles, where it will connect with the Pasadena Gold Line, traveling generally east to Pomona and Atlantic Boulevards in East Los Angeles.

The East Side corridor of Los Angeles County to be served by the Project has substantial unmet mobility needs, significant employment densities, and a high concentration of low-income, transit-dependent residents. The MTA projects ridership on the Metro Gold Line Eastside Extension to reach 23,000 passengers daily by 2020. By improving public transportation services for the East Side communities and their residents, the Project will enhance connections to the regional transportation system and improve access to educational, employment and cultural opportunities.

Major features of the Project include:

**Stations:** Eight transit stations are included in the Project. Six stations are located at street level and two are below grade. The ninth station, constructed earlier as part of the Pasadena Gold Line Project, serves as the line's western terminus at Union Station in downtown Los Angeles. The station located at Pomona and Atlantic Boulevards serves as the eastern terminus for the Eastside Extension.

**Tunnel:** A tunnel segment of 1.7 miles will be constructed. This tunnel segment includes tunnel excavation using Earth Pressure Balance Machines, excavation of cross-passages, concreting of the tunnel floor, walkways and cross-passages, and construction of the east and west tunnel portals.

**Bridge Overcrossing:** A bridge will be constructed to allow the Eastside Extension to pass over the 101 Freeway.

**Park and Ride Facilities:** Two Park-and-Ride facilities will serve the Eastside Extension. One facility will be located in the existing parking structure at Union Station. The second facility is placed at the new parking lot currently used by construction employees, at the eastern terminus. Additional public parking spaces will be constructed, including a small parking lot near Indiana Street, replacement for the displaced parking areas along the alignment.

**Maintenance Facility:** Maintenance and storage requirements will be met through a reconfiguration of the existing facilities of the Metro Gold Line Division No. 21/Midway Yard.

**Electrification & Power Distribution:** The electrical power distribution system will include a series of substations and provide 750 volts of direct current to operate rail vehicles.

**Signal and Communications Equipment:** The Project includes installation of required systems equipment for automatic train control, public address and variable message signs, closed circuit television systems, radio systems and gas and seismic monitoring. A dedicated train signal that governs the rail operations at intersections is contemplated.

**Vehicles:** Twenty light rail vehicles are planned to support the transit demand through 2010; ten vehicles from the current MTA systemwide vehicle procurement contract will be earmarked initially for the Eastside Extension and are included in the Project's baseline scope.

The Project's anticipated completion date is July 10, 2009.

## Baseline Cost Estimate

In the Grant Agreement, the MTA provides a cost estimate for the Project (the “Baseline Cost Estimate”). The Baseline Cost Estimate for the various components of the Project is \$898,814,000, as summarized below:

**TABLE 2  
BASELINE COST ESTIMATE OF PROJECT COMPONENTS**

<u>Component</u>	<u>Amount</u>
Rolling Stock	\$ 29,528,161
Construction of Transitway/Lines	406,762,056
Stops and Terminals	121,185,986
Support Equipment and Facilities	3,000,000
Electrification and Power Distribution	44,829,396
Signal and Communications Equipment	27,915,580
Other Capital	190,539,070
Project Contingency	<u>60,253,752</u>
Subtotal	\$884,014,000
Financing Costs	<u>14,800,000</u>
Baseline Cost Estimate	Total \$898,814,000

This Baseline Cost Estimate is used by the FTA to monitor the MTA’s compliance with certain terms and conditions of the Grant Agreement. The MTA expects the total cost of the Project, including financing costs, to remain within the Baseline Cost Estimate.

## Funding of Project Costs

The cost of the Project, net of financing costs, is estimated to be \$884,014,000. Construction of the Project is expected to be funded from the following sources:



**TABLE 3  
PROJECT FUNDING  
(\$ in millions)**

<u>Funding Source</u>	<u>Amount</u>	<u>Amount Received</u>	<u>Percentage Received</u>
<u>Federal Sources</u>			
Federal Sec. 5309 New Starts	\$490.7		
Federal Other (5309 Fixed Guideway)	23.1		
CMAQ Regional Improvement Prog.	10.3		
Regional Improv. Program – Federal <sup>(1)</sup>	<u>179.6</u>		
Total Federal Sources	\$703.7		
<u>Non-Federal Sources</u>			
Regional Improv. Program – State	\$ 0.6		
State TCRP	45.0		
Prop. A/Prop. C Bonds	124.6		
Lease Revenues	<u>10.1</u>		
Total Non-Federal Sources	\$180.3		
Prop. A/Prop. C Sales Tax Revenue	\$ 14.8		
Grand Total	\$898.8		

<sup>(1)</sup> Federal Regional Improvement Program funds are subject to annual appropriation by the State pursuant to State law (AB 3090) and an AB 3090 Project Reimbursement Agreement, dated March 31, 2003, between the MTA and the State Department of Transportation.

### **Construction Contracts**

The MTA has entered into separate contracts for the following construction and acquisition components of the Project: (i) 101 Freeway Bridge Overcrossing, (ii) Tunnel and Station Excavation/Stations, Trackwork and System and (iii) Light Rail Vehicles.

**101 Freeway Bridge Overcrossing.** The construction of the 101 Freeway Bridge Overcrossing is being combined with a Caltrans freeway improvements project. Caltrans and Brutoco Engineering & Construction (“Brutoco”) have entered into a construction contract to construct the bridge overcrossing as part of the Caltrans project. While Caltrans will administer the construction, the MTA will provide oversight and is responsible for the construction costs. The MTA entered into an MOU with Caltrans for the lump sum price of \$6,416,000 to cover the costs of the bridge overcrossing. The work to be performed by Brutoco includes all site work, construction and rehabilitation necessary to complete the bridge overcrossing in accordance with contract specifications. In addition to the lump sum price the MTA has budgeted an allowance for contract modifications in the amount of \$350,000.

The MTA gave Brutoco the Notice to Proceed on September 22, 2004. Brutoco is required to substantially complete its work within 700 calendar days.

**Tunnel and Station Excavation/Stations, Trackwork and Systems.** On June 1, 2004, the MTA awarded to Eastside LRT Constructors, a joint venture of Washington Group International, Obayashi

Corporation and Shimmick Construction Corporation (“LRT”), a lump sum contract in the amount of \$600,449,000, for construction work on a six-mile alignment of the Metro Gold Line Eastside Extension.

This contract has been divided into two components: (i) a component for the construction of 1.7 miles of twin-bored tunnels utilizing Earth Pressure Balance tunnel boring machines, excavation and construction of tunnel cross-passages and tunnel portals and the excavation of two underground stations, and (ii) a component covering the entire alignment including final design, construction, installation and testing for the two underground stations, six at-grade stations, trackwork and all systems components.

LRT commenced work on July 1, 2004. The required completion date of this construction work is May 30, 2009. LRT has agreed to pay specified liquidated damages for each day that completion of certain milestones is delayed.

**Light Rail Vehicles.** On April 24, 2003, the MTA awarded to AnsaldoBreda S.p.A. of Naples, Italy (“AnsaldoBreda”) a firm, fixed price contract in the amount of \$158,738,671 for a fleet of 50 Light Rail Vehicles (“LRVs”). Of the 50 LRVs under this contract, ten are required for the Metro Gold Line Eastside Extension at a contract price of \$31,747,734. The MTA plans to use the remaining 40 LRVs for the current Pasadena Gold Line.

### **Status of Project**

The Project is currently on schedule and within budget. The total project budget is \$898.8 million, of which \$249.8 million has been spent as of March 31, 2005. As of March 31, 2005, \$136.2 million (almost 8.0%) of the work is complete on the \$600.4 million contract with LRT; \$\_\_ million (almost \_\_%) of the work is complete on the \$31.7 million contract with AnsaldoBreda; and \$0.2 million (almost 5.9%) of the work is complete on the \$6.4 million contract with Brutoco Engineering & Construction. Change orders totaling \$0.2 million have been approved or are pending as of April 29, 2005.

All grade crossing applications have been submitted to the California Public Utilities Commission (CPUC) for review. Of the 41 grade crossings, 36 have been approved. The remaining five applications are grade separated crossings. Sixty-nine parcels have been certified and offers were made to 66 property owners. A total of 51 parcels have been acquired. The MTA is in negotiations with the other property owners.

## **THE GRANT AGREEMENT**

### **General**

Upon approval of the Project by the FTA, the MTA and the FTA executed the Grant Agreement to establish the maximum federal New Starts financial contribution for the Project of \$490,700,000 (the “Maximum Federal Financial Contribution”) and the terms and conditions for the award of a grant (to be received over a period of years) for the Project. The Grant Agreement contains the FTA’s contingent commitment to provide a grant under Section 5309 of the New Starts program and sets forth an annual schedule (set forth below) of the grant amounts that the FTA expects to provide for the Project. (See also “FEDERAL TRANSIT PROGRAM” for a discussion of the New Starts program.) The Grant Agreement provides that the award of these funds is contingent upon the future availability of appropriated funds from future budget authority specified in law and the continued performance of the MTA under the Grant Agreement. This contingent commitment of funds does not constitute an obligation of the United States.

The following table sets forth the grant commitment by the FTA and the grant amounts received and anticipated under the Grant Agreement. The grant amounts are expected to be received in single annual payments. The MTA has received \$\_\_\_\_\_ to date under the New Starts program for the Project, some of which was received before entering into the Grant Agreement. An additional \$\_\_\_\_\_ has been appropriated. The MTA expects to receive additional grant amounts under the Grant Agreement resulting in total funding for the Project under the New Starts program of \$490,700,000.

**TABLE 4  
ANTICIPATED GRANT RECEIPTS**

<u>Federal Fiscal Year</u>	<u>Original Grant Commitments</u>	<u>Appropriated Amount<sup>(1)</sup></u>	<u>Grant Amounts Received and Anticipated</u>
Pre-2005	\$ 17,265,449		\$ *
2005	60,000,000		*
2006	80,000,000		**
2007	100,000,000		
2008	80,000,000		
2009	80,000,000		
2010	<u>73,434,551</u>		
<b>TOTAL</b>	<b>\$490,700,000</b>		<b>\$490,700,000</b>

<sup>(1)</sup> The Appropriated Grant Amount is the Original Grant Commitment less an amount that is withheld by the FTA for payment to the appointed Project Management Oversight Consultant (“PMOC”) each year. These withheld amounts ultimately will be paid to the MTA after completion of the Project.

\*Amounts received by the MTA

\*\*Amounts appropriated by Congress, but not received by the MTA.

Receipt of federal funding under the Grant Agreement is subject to annual appropriation by Congress. See “SPECIAL INVESTMENT CONSIDERATIONS—Uncertainties in Federal Funding.”

In order to receive the Grant, the MTA agreed to complete the Project and to secure any additional funds in excess of the Maximum Federal Financial Contribution that are necessary to complete the Project. As a condition of the FTA’s execution of the Grant Agreement, the MTA developed and adopted a financing plan (the “Financing Plan”) that is incorporated as a part of the Grant Agreement for the financing of all costs necessary to complete the Project. The Financing Plan includes, in addition to the Maximum Federal Financial Contribution, a statement of the State and local sources of funding that will be committed to the Project. The Grant Agreement sets forth the MTA’s commitment to provide funds as set forth in the Financing Plan in an amount sufficient, together with the federal contribution, to assure timely and full payment of the costs necessary to complete the Project. The MTA’s financing plan contemplates a number of funding sources to complete the Project, as summarized above in TABLE 3—PROJECT FUNDING.

The Grant Agreement also includes a Baseline Cost Estimate for the Project. The Baseline Cost Estimate of \$898,814,000 is used by the FTA to monitor the MTA’s compliance with certain terms and conditions of the Grant Agreement. The MTA expects the total cost of the Project, including financing costs, to remain within the Baseline Cost Estimate.

The MTA also developed a financing plan for financing the future operation and maintenance of the Project (the “O&M Financing Plan”) that is incorporated as a part of the Grant Agreement. The O&M

Financing Plan has been developed to assure that the MTA has stable and dependable funding sources, sufficient in amount and in degree of commitment, to operate and maintain its entire mass transit system at an adequate and efficient level of service, including the future operation and maintenance of the Project.

### **Noncompliance**

Certain failures to comply with the terms of the Grant Agreement will constitute a default under the Grant Agreement, including but not limited to, a failure by the MTA to complete the Project in accordance with the Grant Agreement. The MTA agreed in the Grant Agreement to a Required Completion Date of December 31, 2009. Failure to achieve the Required Completion Date would constitute such a default under the Grant Agreement. See “SPECIAL INVESTMENT CONSIDERATIONS—Construction Risk.” In the event of such default, the FTA will have all remedies at law and equity, including the right to specific performance without federal financial assistance, and the right to terminate or suspend all or a part of the federal financial assistance. The FTA may also demand that all Full Funding Grant Receipts provided to the MTA for the Project be returned to the FTA. See “APPENDIX A—THE GRANT AGREEMENT” for a copy of the Grant Agreement.

### **Previous FTA Grant Restructuring and MTA Recovery Plan**

In 1997, the MTA was required to submit a rail recovery plan to address certain funding shortfalls before the FTA would release grants under a prior full funding grant agreement related to the MTA’s Metro Rail Red Line project (the “Red Line Project”). The MTA began development of the Red Line Project in 1980. The Red Line Project was a federally funded, heavy rail subway project that was divided, in terms of project development and phasing, into Minimal Operable Segments, known as MOS-1, MOS-2 and MOS-3. In August 1986, the FTA and the MTA entered into a full funding grant agreement (the “August 1986 FFGA”) for MOS-1. All funding pursuant to the August 1986 FFGA was received by the MTA. In April 1990, the FTA and the MTA entered into a full funding grant agreement (the “April 1990 FFGA”) for MOS-2. All funding pursuant to the April 1990 FFGA was received by the MTA.

In May 1993, the FTA and the MTA entered into a full funding grant agreement (the “May 1993 FFGA”) for MOS-3. The MOS-3 project consisted of seven stations and approximately 11.6 miles of heavy rail subway on three extensions: North Hollywood, Mid-City and East Side. The May 1993 FFGA included a detailed scope and construction budget for the North Hollywood and Mid-City Extensions of MOS-3, but only a pro forma budget for the East Side Extension because that component was still undergoing the alternatives analysis, preliminary engineering and environmental processes. The parties to the May 1993 FFGA agreed to enter into a subsequent amendment to incorporate the East Side Extension construction scope and schedule once the necessary environmental reviews were completed. Pursuant to Congressional authorization, the FTA agreed to provide up to \$1.23 billion in Section 5309 funds for MOS-3. The authorization was divided into a federal share of \$695 million for fiscal years 1993-97 and an additional \$535 million for fiscal years 1998-00. On December 28, 1994, the parties executed an amendment to the May 1993 FFGA to incorporate the detailed scope and construction budget for the initial line of the East Side Extension. This amendment committed an additional \$186 million for MOS-3, bringing the total commitment of the May 1993 FFGA to \$1.416 billion.

On August 31, 1994, a civil rights class action complaint against MTA was filed in the United States District Court for the Central District of California, and on October 28, 1996, Judge Terry Hatter approved a Consent Decree (the “Consent Decree”) reached between the MTA and the plaintiffs in this action. See “LITIGATION—Fare Increase Litigation.” The Consent Decree required the MTA to purchase new buses and expand bus service, and limited future bus fare increases. The fiscal impact of

the Consent Decree was a significant shift of the MTA's funding resources away from rail construction and into bus expenditures.

As part of the Department of Transportation and Related Agencies Appropriations Act for Fiscal Year 1998, Congress required the MTA to submit a rail recovery plan that included provisions for enhanced bus service pursuant to the Consent Decree before funding under the May 1993 FFGA for MOS-3 would be made available to the MTA. In April 1997, the FTA notified the MTA that the MTA's initial recovery plan was not acceptable and that it intended to restructure the May 1993 FFGA into three separate full funding grant agreements.

On July 22, 1997, the MTA and the FTA entered into a Revised and Restated Full Funding Grant Agreement, Part I-A (the "Restated FFGA"), for the North Hollywood segment of MOS-3. The Restated FFGA provided a maximum amount of Section 5309 funding of \$681.0 million.

The MTA submitted a restructuring plan in May 1998 that contemplated the suspension of all rail construction except for MOS-2 and MOS-3. This restructuring plan also addressed strategies to reduce operating and capital shortfalls that were exacerbated by the Consent Decree. This restructuring plan was accepted by the U.S. Department of Transportation Office of Inspector General and the FTA. The MTA expects to receive the final payment of approximately \$660,000 pursuant to the Restated FFGA for MOS-3 before the end of 2005. Upon receipt of this final payment, MTA will have received all funding pursuant to the May 1993 FFGA.

## **FEDERAL TRANSIT PROGRAM**

### **General**

The FTA's federal transit program (the "Program") in support of public transit in the United States had its origin in 1955 when Congress authorized the Administrator of the Housing and Home Finance Agency to make loans to public bodies to assist in financing urban mass transportation capital improvement projects. This authority was later transferred to the United States Department of Housing and Urban Development and then expanded in 1964 with the passage of the Urban Mass Transportation Act (the "UMT Act"). In 1968, the Secretary of the Department of Transportation (the "Secretary of Transportation") was given the authority to administer the UMT Act and the Urban Mass Transportation Administration (the "UMTA") was created within the United States Department of Transportation. The UMT Act was reauthorized in 1970, 1974, 1978, 1982, 1987, 1991 and most recently in 1998. The 1982 legislation created the Mass Transit Account and for the first time provided transit funding from the Highway Trust Fund. Reauthorization in each of these years represents Congress' approval to expend federal revenues on federal transportation programs.

In 1991, Congress passed the Intermodal Surface Transportation Efficiency Act ("ISTEA") which made important changes to the UMTA program, including, changing the name of the UMTA to the FTA. In 1994, the UMT Act was codified under Title 49 of the U.S. Code.

The most recent reauthorization legislation, the Transportation Equity Act for the 21st Century ("TEA 21") was signed into law in 1998 and extended authorization of the Program through FFY 2003 at the levels indicated in the table below. The primary change in the Program contained in TEA 21 is the "guarantee" of certain fixed levels of funding for transit.

Under the Program, funds are provided through a two-step process. The first step involves the authorization of funds for the specifically described purposes of the Program through the authorizing legislation (such as TEA-21 or the bill currently in conference ). The authorized amounts consist of either

contract authority or budget authority. Generally, contract authority is provided on the basis of a revenue stream that Congress has already put in place, e.g., the Mass Transit Account of the Highway Trust Fund. Absent congressional action expressly limiting the exercise of existing contract authority, the Federal Transit Administrator may obligate grants funded with contract authority after a FFY begins even without subsequent appropriations. Authorizations based on budget authority differ from those based on contract authority in that they do not provide the Administrator with any ability to obligate grant funds until the second step of the two-step process is concluded.

The second step involves the appropriations of funds by Congress. Through appropriations bills, Congress provides the cash necessary to fund the portion of the Program funded with budget authority. In addition, Congress generally uses the appropriations process to restrict the exercise of contract authority through the imposition of obligation ceilings. For activities funded budget authority, appropriations amounts are almost always equal to or less than the authorized levels set out in step one. Similarly, if Congress imposes an obligation limitation on contract authority, that amount tends to be equal to or less than the authorized level of contract authority.

Under TEA 21, “guaranteed” funding levels are built into the highway and transit programs. As a result, transit funding is “guaranteed” at a selected fixed amount over the TEA 21 authorization period and can be used only to support transit programs. The amount “guaranteed” for transit is approximately \$36 billion or approximately 88% of the total authorization over the six year period of authorization as shown below.

**TABLE 5**  
**TEA-21 FEDERAL TRANSIT PROGRAM**  
**“GUARANTEED” AND NON-GUARANTEED FUNDING LEVELS\***  
**(\$ in billions)**

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>Total</u>
“Guaranteed”	\$4.644	\$5.315	\$5.798	\$6.721	\$6.747	\$7.226	\$35.000
Non-Guaranteed	0.000	1.026	1.013	1.003	0.990	0.968	5.000
Total	\$4.644	\$6.341	\$6.811	\$7.274	\$7.737	\$8.194	\$41.000

\*References are to federal fiscal years.  
Source: Federal Transit Administration.

The “guaranteed” funding level assumes that approximately 80% of transit spending will derive from the Mass Transit Account and the remaining percentage will derive from the General Fund, each as described below. See “Funding of Federal Transit Program” below. Congress, through the annual budget process, could choose to raise the total funding level by allocating a part of some other federal program’s budget to transit but, because of the established “firewall” around the transit program, it cannot use any of the “guaranteed” transit amount for any other federal program.

The second step of the federal funding process occurs when revenues that have been authorized by legislation are appropriated and obligated for a specific purpose. FTA funds are allocated for transit purposes specified in the authorizing legislation in several ways. Within ten days of the President’s signing of appropriation legislation, the FTA publishes a Notice in the Federal Register listing the amount apportioned to each urbanized area (in the case of 49 U.S.C. 5307 funds), to certain areas which operate existing fixed guideway service (in the case of 49 U.S.C. 5309 – Fixed Guideway Modernization Program) or to each state (in the case of certain elderly/disabled and non urbanized area programs). The

FTA also lists specific Congressionally mandated projects which have been allocated discretionary funds under 49 U.S.C. 5309 (including grants pursuant to full funding grant agreements) in the legislation itself.

### **Federal Reauthorization**

As of today, Congress has not reauthorized a new transportation bill. However, program extensions have been approved during fiscal years 2003, and 2004, that allowed obligation of new federal funds, including FFGA commitments. In 2005, the program extensions have been extended through June 30, 2005, making available for obligation 9/12th of the funds authorized for FFY. Based on the current authorization bills passed by the House and Senate, it is anticipated that the length of the new reauthorization bill will once again be for a period of six years, as was the case for ISTEA and TEA 21, and that the bill will otherwise continue to build upon the framework established by ISTEA and TEA 21. The Project was specifically authorized in TEA 21, and the DOT and the FTA anticipate that all of the New Starts projects authorized in TEA 21, including the Project, will be reauthorized in the new surface transportation act.

### **Funding of Federal Transit Program**

The FTA administers funds under the Program through approved grants paid primarily from the Mass Transit Account (the "MT Account"), an account within the Highway Trust Fund (the "HTF"). The HTF is funded by collection of federally imposed motor vehicle user fees, primarily fuel taxes, and is a dedicated fund with dedicated revenues that are held in trust for reimbursement of the cost of transportation projects, including transit and highway projects. Approximately \_\_\_% of the FTA program is funded from the MT Account, the remaining \_\_\_% comes from the General Revenue Fund.

The HTF presently contains the Highway Account and the MT Account. The MT Account receives approximately 16% of federal gasoline tax revenues and 12% of federal diesel fuel tax revenues collected nationwide, with the remaining share of such revenues deposited in the Highway Account. Using revenues in the MT Account, the FTA makes grants to recipients for expenditures related to approved transit projects.

The 18.4 cents per gallon of federal gasoline excise taxes are the largest revenue source for the HTF. Of this amount, 15.44 cents per gallon go to the Highway Account, while the remaining 2.86 cents per gallon go to the MT Account. The following table shows historical annual HTF receipts deposited into the MT Account for the period FFY 1995 to FFY 2004.

**TABLE 6**  
**TOTAL ANNUAL RECEIPTS**  
**MASS TRANSIT ACCOUNT\***  
**(\$ in thousands)**

<u>Year</u>	<u>Receipts</u>
1995	\$2,192,062
1996	2,617,027
1997	3,357,679
1998	3,486,832
1999	5,477,927
2000	4,625,403
2001	4,553,110
2002	4,621,110
2003	4,965,142
2004	5,034,653

\* References are to federal fiscal years.  
Source: Federal Transit Administration.

Collections of HTF taxes (“HTF collections”), must periodically be reauthorized by Congress. Historically, the HTF and its constituent taxes have been authorized to operate for prescribed periods of time. Originally, the HTF was authorized through June 1972; it has been reauthorized several times. Most recently, TEA 21 authorized HTF collections in FFY 2004 and FFY 2005 in the amounts authorized in FFY 2002 and FFY 2003, respectively, which extends these collections two federal fiscal years beyond TEA 21.

**Section 5309 Capital Investment Grant Program for New Start Projects**

Under the Section 5309 Capital Program, the Secretary of Transportation may make grants to assist public bodies in financing capital projects for, among other things, New Start projects. Grant applicants obtain eligibility for project funding under Section 5309 by completing the major capital investment planning and project development process (the “Project Development Process”). This process is designed to identify regional transportation needs and to develop strategies to meet these needs; to provide local decision makers a logical structure for the development of regional transportation plans from conception through design and construction; to provide to local decision makers technical information on costs, benefits and impacts; and to provide a forum for collaborative decision making by local transportation, land use, and resource agencies, with appropriate involvement by the public.

The FTA New Starts Planning and Project Development Process. TEA-21 requires that New Starts projects, like all transportation investments in metropolitan areas, must emerge from a regional multimodal transportation planning process and must be evaluated and publicly reviewed in accordance with the National Environmental Policy Act (NEPA) in order to be eligible for Federal funding. The Project Development Process involves four phases: alternative analysis, preliminary engineering, final design and construction. Grant applicants must obtain FTA approval to advance a project proposal through each phase.



The Secretary of Transportation is required under Section 5309 to make several specific findings concerning a grant applicant's planning for a project and a grant applicant's capability to carry out the project. The Secretary of Transportation has delegated authority to make these findings to the FTA.

The FTA will not make any grants under Section 5309 unless it finds that:

1. the project proposed is a product of the Project Development Process,
2. the grant applicant has or will have the legal, financial, and technical capacity to carry out the project,
3. the grant applicant has or will have satisfactory continuing control over the use of the equipment or facilities, and
4. the grant applicant has or will have the capability to maintain the equipment or facilities, and will maintain the equipment or facilities.

### **Full Funding Grant Agreement**

The FTA provides funding for a project approved under Section 5309 pursuant to a full funding grant agreement (an "FFGA"). The FFGA defines the project, including cost and schedule; commits the FTA to a maximum level of federal financial assistance under the New Starts program; establishes the terms and conditions of federal financial participation; specifies the date for completion of the project; and manages the projects in accordance with federal law. The FFGA also contains an acknowledgment that FTA's commitment of financial assistance is contingent upon the appropriation of funds and that the commitment of funds does not constitute an obligation of the United States. At least 60 days before entering into an FFGA, the Secretary of Transportation must notify the Committee on Transportation and Infrastructure of the House of Representatives (the "Transportation Committee"), the Committee on Banking, Housing and Urban Affairs of the Senate (the "Banking Committee") and the House and Senate Committees on Appropriations of the proposed FFGA. The Secretary must include with the notification a copy of the proposed FFGA as well as the evaluations and ratings for the project.

The MTA completed the Project Development Process for the Project under Section 5309 and in June 2004 executed the Grant Agreement which sets forth the terms and conditions for the award of Grants for the Project. See "SECURITY FOR THE BONDS," "THE GRANT AGREEMENT" and "APPENDIX A—THE GRANT AGREEMENT."

### **FTA Funding of New Start Projects**

Under Section 5309, Congress has allocated 40% of the amounts appropriated for the Capital Program for New Start projects. In any federal fiscal year, however, available New Start funds are less than the funds requested by grant applicants. As a result, the FTA performs a ranking of authorized projects submitted by new grant applicants to determine New Start funding. Each February, the Secretary of Transportation transmits an annual report for the allocation of New Start funding to the Transportation Committee and the Banking Committee. The annual report includes a recommendation on the allocation of funds available to finance New Start projects for the following federal fiscal year. The recommendations on funding are based on the FTA's existing commitments under an FFGA or a "letter of intent" and on evaluations and ratings for newly proposed New Start projects and on anticipated funding levels for the next three federal fiscal years and for the next ten federal fiscal years based upon information currently available. The Secretary of Transportation also must submit a supplemental report

to Congress on each August 31 as an update on projects that have completed planning or preliminary engineering.

Under Section 5309, the FTA is permitted to make commitments for all of the “guaranteed” funding during the authorization period provided by TEA-21 (FFY 1998 to FFY 2003), plus additional discretionary or non guaranteed funding in FFY 2002 and FFY 2003. The FTA’s commitment to provide grant funding equal to the authorized funding levels for a New Start project results in the FTA’s reservation of available commitment authority from “guaranteed” and discretionary funds for the New Start project over the specified funding term.

The FTA’s existing commitments for New Start projects are detailed in the annual report to Congress through the inclusion of the grant funding schedule contained in each FFGA. The sum total of all FFGA commitments initiates the FTA’s funding budget that is incorporated in the annual report to Congress. The FTA assigns first priority for available funds to New Start projects for which the FTA has awarded an FFGA, or issued a “letter of intent” to obligate funds from future available appropriations.

In preparing the annual federal budget appropriation, Congress may balance the needs of the Capital Program against particular projects within the Capital Program and may in any fiscal year determine to adjust the allocation of funds among various projects. However, to date Congress has not adjusted the total FTA commitment that is approved under any FFGA. As a result, Congress has fully funded all FFGA commitments, but such funding may not have been provided in accordance with the funding schedule set forth in the FFGA. See “SPECIAL INVESTMENT CONSIDERATIONS—Uncertainties in Federal Funding.”

### **Section 5307 Urbanized Area Formula Program**

**General.** The Section 5307 Program is a formula grant program for standard metropolitan statistical areas with populations greater than 50,000 population (each an “urbanized area”) providing capital, operating or planning assistance for mass transportation. Section 5307 Formula Funds for operating assistance are available only to urbanized areas with populations below 200,000. With a population within its boundaries greater than 200,000, the MTA does not qualify for grants for operating assistance under the Section 5307 Program, but is eligible for grants related to capital (including preventive maintenance) and planning assistance. Funds are apportioned to urbanized areas utilizing a formula based on population, population density, and other factors associated with transit service and ridership.

**Annual Apportionment of Funds.** Once appropriated by Congress, the FTA funds are allocated for transit purposes in several ways as specified in the authorizing legislation. Within ten days of the President’s signing of appropriation legislation, the FTA publishes a Notice in the Federal Register (the “Notice”) listing, along with other information, the amount apportioned to each urbanized area in the case of Section 5307 Formula Funds. The MTA receives a portion of the funds that are apportioned to the Los Angeles Urbanized Area (the “Local Urbanized Area”).

**Designated Recipient.** For block grant purposes and to assure coordination of funds in each urbanized area, Section 5307 requires the Governor of each state to designate a recipient or recipients (each, a “designated recipient”) to receive and dispense the Section 5307 Formula Funds. The MTA is one of the designated recipients in the Local Urbanized Area. For an urbanized region with more than one designated recipient, such as the Local Urbanized Area, the amounts available under the Program, as published in the Notice, must be further allocated among the region’s designated recipients by the Metropolitan Planning Organization or Organizations (each, a “MPO”) for the urbanized area. For the

Local Urbanized Area, this process is completed by the Southern California Association of Governments (“SCAG”). The MTA is a designated recipient under SCAG’S region \_\_\_\_\_.

***Amount of Apportioned Section 5307 Formula Funds.*** The amount of Section 5307 Formula Funds apportioned to each urbanized area is determined based on a formula composed of two components. The first component is a Congressionally-mandated formula based on population and population density in urbanized areas. For urbanized areas over 200,000 in population, such as the MTA, funds flow directly to the designated recipient.

The second component determining the amount of Section 5307 Formula Funds is operating and service-related data compiled in strict accordance with requirements set forth in the legislatively-mandated National Transit Data (“NTD”) Summary. This summary of nation-wide transit data is compiled annually by the FTA from operator-supplied, FTA-validated, individual reports containing extensive information about each transit property and the transit service it provides. Assuming no new transit service is added or dropped during the year, the yearly data submitted to the FTA remains relatively constant and, consequently, the annual apportionment likewise remains relatively constant.

***Grant Application and Section 5307 Formula Fund Obligation.*** Once the Notice is published listing actual amounts of Section 5307 Formula Funds available to each urbanized area and, in the case of designated recipients such as the MTA, the relevant MPO has made its allocations, eligible public bodies are able to submit grant applications to the FTA. Following FTA approval of an application, FTA obligates federal funds for specific eligible projects and reserves those funds under the various grant programs of the Federal Transit Program, including the Section 5307 Program. Once obligated and reserved for draw down by the designated recipient for the approved projects, such obligated funds are available to the designated recipient until expended.

***Lapsing of Apportioned Section 5307 Formula Funds.*** Section 5307 Formula Funds apportioned to an urbanized area must be requested by the designated recipient in the area and obligated by FTA within three years following the year of apportionment. If such funds are not obligated within this time frame, the apportionment to the urbanized area lapses and the funds revert to FTA which reapportions them the following year. As stated above, however, once Section 5307 Formula Funds are obligated by FTA to a designated recipient, the funds remain available until spent by the designated recipient. Historically, the MTA has taken all steps necessary to apply for all apportioned and available funds in a Federal Fiscal Year.

***Program Implementation.*** Program implementation includes a wide range of activities which occur after the federal grant approval, largely on the part of the designated recipient, to produce the project for which grant funds were made available and to seek draw downs from such grant funds for eligible costs. Once projects are in the implementation phase – where the FTA has approved project budgets and plans – but before actual implementation, projects and their corresponding sources of funding may be reprogrammed. Reprogramming involves the amendment of previously approved capital project plans and budgets to allow for the expenditure of apportioned and allocated Federal Transit Program formula funds on other eligible and approved projects.

***Timing of Receipt of Federal Transit Program Funding Apportionment.*** The flow of FTA funds under Section 5307 to the MTA and the resulting ability to pay debt service on the Bonds will depend on several factors, most notably, the amount of funding provided to the MTA by the federal government under the Federal Transit Program and the MTA’s ability, pursuant to the grant application process, to use such funding. The apportioned amount of formula funding under the Federal Transit Program sets the upper limit on the federal government’s commitment to pay, through draw downs, its share of eligible expenditures on approved projects. Although the annual apportionment is not a direct

representation of the amount of funding a designated recipient such as the MTA will receive under the applicable Federal Transit Program in a given year (due to the long-term nature of the construction and/or acquisition of capital projects), the apportionment level *will* determine over time the amount of funding that a designated recipient may receive.

**While the MTA believes that it will receive sufficient Section 5307 Grant Receipts (together with Full Funding Grant Receipts) to pay debt service on the Bonds to their maturity, various factors beyond the control of the MTA may affect such receipts, including, without limitation, non-reauthorization of future federal transportation legislative programs, federal budgetary limitations and unforeseen changes in the Federal Transit Program.**

***MTA Participation in Section 5307 Program.*** The MTA has covenanted in the Indenture to comply with all applicable laws of the United States of America and regulations of the FTA relating to the administration and disbursement of federal funds under the Section 5307 Program in order to be eligible to receive Section 5307 Grant Receipts for the payment of the Bonds and to facilitate its prompt receipt of Section 5307 Grant Receipts. See “APPENDIX A—SUMMARY OF THE INDENTURE—Covenants of the MTA.”

***Matching Funds Requirement.*** The Federal Transit Program, of which the Section 5307 Program is a part, requires the recipients of funds under said program to provide a matching non-federal share for a portion of the total costs of projects eligible for reimbursement. The Section 5307 Program provides for funding of up to 80 percent of the net project cost of eligible capital sources and, with certain exceptions, sources other than revenues derived from providing mass transit.

Presented below is a summary of the MTA’s historical and projected Section 5307 Grant Receipts.

**TABLE 7  
HISTORICAL AND PROJECTED  
SECTION 5307 GRANT RECEIPTS  
(\$ in millions)**

<u>Federal Fiscal Year</u>	<u>Section 5307 Grant Receipts</u>
2001	\$116.1
2002	124.7
2003	143.1
2004	129.0
2005	140.6
2006	129.0*
2007	138.0*
2008	146.9*
2009	157.9*
2010	145.0*
2011	147.0*
2012	149.1*

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\* Projected.

## THE AUTHORITY

### General

The MTA was established in 1993, pursuant to the provisions of Sections 130050.2 *et seq.* of the California Public Utilities Code, as a consolidated successor entity to the Southern California Rapid Transit District (the “District”) and the Los Angeles County Transportation Commission (the “Commission”). The MTA succeeded to all powers, duties, rights, obligations, liabilities, indebtedness, bonded or otherwise, immunities and exemptions of the Commission and the District, including the Commission’s responsibility for planning, engineering and constructing a county-wide rail transit system. The Commission was authorized subject to approval by the electorate of the County, to adopt a retail transactions and use tax ordinance, with the revenues of such tax to be used for public transit purposes. On November 4, 1980, the voters of the County approved the Proposition A Sales Tax.

***Board of Directors.*** The MTA is governed by a 14-member Board of Directors (the “Board”). The Board is composed of the five members of the County Board of Supervisors, the Mayor of the City of Los Angeles, two public members and one member of the City Council of the City of Los Angeles, four members who are either a mayor or a member of a city council of a city in the County (other than the City of Los Angeles) and who have been appointed by the Los Angeles County City Selection Committee, and a nonvoting member appointed by the Governor.

The current members of the Board and a brief biography of each member are provided below.

***Frank C. Roberts, Chair.*** Mr. Roberts is the Mayor of the City of Lancaster, having been elected in 1996, and re-elected in 1998, 2000, 2002 and 2004. Prior to his election as Mayor, Mr. Roberts served as a member of the City Council of the City of Lancaster since 1992. Mr. Roberts was appointed to the Board in 1999 by the Los Angeles County City Selection Committee. Mr. Roberts retired from Antelope Valley College in 1996 after 36 years; 19 years as a teacher of engineering and math and 17 years as the Dean of Applied Academics and Technologies. Mr. Roberts holds a Bachelor of Science degree in Engineering from Cal State University at Los Angeles, a Master of Science degree in Vocational Education from UCLA, and a Masters in Public Administration from Cal State University at Northridge.

***James K. Hahn, First Vice-Chair.*** Mr. Hahn was elected Mayor of the City of Los Angeles in June 2001. He served Los Angeles for 16 years as its elected City Attorney (1985-2001) and four years as its elected City Controller (1981-1985). He received a Bachelor of Arts Degree in English and a law degree from Pepperdine University.

***Gloria Molina, Second Vice-Chair.*** Ms. Molina is the Los Angeles County Supervisor representing the First Supervisorial District, having been first elected to this office in March of 1991 and was re-elected in 1994, 1998 and 2002. Prior to her election to the Board of Supervisors, Ms. Molina served as State Assemblywoman for the 56th District from 1982 to 1987. In 1987, she was elected to the Los Angeles City Council where she served as the Councilwoman of the First District until 1991. Prior to being elected to public office, Ms. Molina served in the Carter White House as a Deputy for Presidential Personnel. After leaving the White House, Ms. Molina served as the Deputy Director for the Department of Health and Human Services in San Francisco.

***Michael D. Antonovich.*** Mr. Antonovich is the Los Angeles County Supervisor representing the Fifth Supervisorial District, having been reelected to his seventh four-year term in 2004. From 1972 to 1978, he served as a member of the California State Assembly. He also served as a member of the Board of Trustees of the Los Angeles Community College District from 1968 to 1973. Mr. Antonovich has held

teaching positions with the Los Angeles School District and Pepperdine University. He holds a Bachelor of Arts degree and Master's Degree from California State University, Los Angeles.

**Yvonne Brathwaite Burke.** Mrs. Burke is the Los Angeles County Supervisor for the Second Supervisorial District, having been elected in 1992 and reelected in 1996, 2000 and 2004. Mrs. Burke served as a member of Congress from 1972 to 1978, and as an Assemblywoman from 1966 to 1972. She has served on numerous boards, including the University of California Board of Regents, the Board of Trustees of the Amateur Athletic Foundation (formerly the Los Angeles Olympic Organizing Committee), and Chair of the Los Angeles branch of the Federal Reserve Bank of San Francisco. Mrs. Burke received her Bachelor of Arts degree in Political Science from the University of California, Los Angeles, and a Juris Doctorate from the University of Southern California School of Law.

**John Fasana.** Mr. Fasana is the Mayor of the City of Duarte, having been elected to the Duarte City Council in November 1987 and reelected in 1991, 1995, 1999 and 2003. Mr. Fasana has served as Mayor twice previously, in 1990 and in 1997. Mr. Fasana was appointed to the Board in 1993 by the Los Angeles County City Selection Committee. Mr. Fasana presently serves on the Local League of California Cities Transportation Committee and the SCAG Transportation and Communications Committee within the City of Duarte. Mr. Fasana is President of the Buena Vista Foundation for at-risk youth and is a member of the Santa Anita YMCA Policy Board. Mr. Fasana received his Bachelor of Arts in Business Administration from Whittier College.

**Don Knabe.** Mr. Knabe is the Los Angeles County Supervisor representing the Fourth Supervisorial District, having been elected in 1996 and reelected in 2000 and 2004. Following a successful career as a small business owner, Mr. Knabe joined Los Angeles County Supervisor Deane Dana's staff in 1982 and later became Chief of Staff for Deane Dana. Mr. Knabe was also elected to the Cerritos City Council in 1980 and served for eight years, including two terms as Mayor. Mr. Knabe holds a Bachelor's Degree in Business Administration from Graceland College in Lamoni, Iowa.

**Tom LaBonge.** Mr. LaBonge was appointed to the Board by Mayor James K. Hahn effective August 2003. He is currently a City Councilman of the City of Los Angeles who was first elected to the City Council in 2001 to complete the last 16 months of the late Council President John Ferraro's term. Mr. LaBonge was re-elected in 2003 to serve his first full four-year term. Prior to his election to the City Council, Mr. LaBonge was the Director of Community Relations for the Los Angeles Department of Water and Power. He served for seven years in the Mayor's office as Special Assistant to former Mayor Richard J. Riordan. Prior to joining Mayor Riordan's staff, Mr. LaBonge served for 15 years as Councilman Ferraro's Chief Field Deputy.

**Bonnie Lowenthal.** Ms. Lowenthal is the Long Beach City Councilwoman for the First District, having been elected in 2001 and reelected in 2002. She was appointed to the Board in 2005 by the Los Angeles County City Selection Committee. Prior to her election to the Long Beach City Council, Ms. Lowenthal served on the Long Beach Unified School District Board from 1994-2001. Ms. Lowenthal is a licensed Marriage, Family and Child Counselor and earned a Bachelor of Science degree in sociology at the University of Wisconsin, Madison and a Master of Science degree in community and clinical psychology at California State University, Long Beach.

**Martin Ludlow.** Mr. Ludlow was appointed to the Board by Mayor James K. Hahn effective August 2003. He is currently a City Councilman to the City of Los Angeles who was first elected to the City Council in May 2003. Prior to his election to the City Council, Mr. Ludlow directed the South Los Angeles campaign offices of Governor Gray Davis. In addition, Mr. Ludlow served as Deputy Director of the Los Angeles Conservation Corps., Deputy Field Director of former Mayor Bradley's Christopher Commission Police Reform Campaign and Western States Political Director for the Service Employees

International Union. Mr. Ludlow holds a Bachelor of Science Degree in Criminal Justice from California State University, Los Angeles.

**Pam C. O'Connor.** Ms. O'Connor has served on the Santa Monica City Council since 1994 and twice has served as that city's mayor in 1997 and 1999. Ms. O'Connor was appointed to the Board in 2001 by the Los Angeles County City Selection Committee. She has served as a member of the Southern California Association of Governments' Regional Council and League of California Cities, transportation and public works committee. Ms. O'Connor also works as a private consultant, specializing in historic preservation. Ms. O'Connor earned a Bachelor of Science Degree in journalism from Southern Illinois University and holds Masters Degrees in historic preservation planning and in technology management from Eastern Michigan University.

**Ed Reyes.** Mr. Reyes was appointed to the Board by Mayor James K. Hahn effective December 2004. He is currently a City Councilman of the City of Los Angeles who was elected to the City Council in 2001. A native of Northeast Los Angeles, Mr. Reyes grew up in the neighborhoods of Lincoln Heights and Cypress Park. Mr. Reyes attended UCLA where he earned his bachelor's degree in English and a master's degree from the Graduate School of Architecture and Urban Planning.

**Zev Yaroslavsky.** Mr. Yaroslavsky is the Los Angeles County Supervisor representing the Third Supervisorial District, having been elected to this office in November 1994 and reelected in 1998 and 2002. Mr. Yaroslavsky served as a member of the City Council of the City of Los Angeles between 1975 and 1994. Prior to his election to the Los Angeles County Board of Supervisors, Mr. Yaroslavsky served on the Board as the alternate to Los Angeles Mayor Richard Riordan. The Los Angeles native earned his bachelor's degree in history and economics from UCLA in 1971, followed by a master's degree in history in 1972.

**Doug Failing, Ex-Officio Member.** Mr. Failing was re-appointed by the Governor of California as the Ex-Officio Member to the Board in April 2005. Mr. Failing previously served in this capacity from July 2002 to November 2003. Mr. Failing is the Director of District 7 of the California State Department of Transportation ("Caltrans"), having been named to this position in June 2002. In this position, he is responsible for managing 27 freeways and state highways in Los Angeles and Ventura Counties. Mr. Failing is a Registered Civil Engineer in the State of California and holds a Bachelor of Science degree in Civil Engineering from Michigan Technological University.

## **Management**

**General.** The MTA must exclusively conduct the following powers and responsibilities: (i) establishment of overall goals and objectives, (ii) adoption of the aggregate budget for all of its organizational units, (iii) designation of additional municipal bus operators under criteria enumerated in the MTA Act, (iv) approval of all final rail corridor selections, (v) final approval of labor contracts covering employees of the MTA and its organizational units, (vi) establishment of the MTA's organizational structure, (vii) conducting hearings and setting fares for the operating organizational units, (viii) approval of transportation zones, (ix) approval of any debt instrument with a maturity date exceeding the end of the Fiscal Year in which it is issued, (x) approval of benefit assessment districts and assessment rates and (xi) approval of contracts for construction and transit equipment acquisition which exceed \$5,000,000 and making findings in connection with certain procurement decisions.

The management of the MTA is under the direction of its Chief Executive Officer, who performs any duties delegated to him or her by the MTA. The Board also appoints a General Counsel, Inspector General and Board Secretary. The Chief Executive Officer serves at the pleasure of the Board, as do the

General Counsel, Inspector General and Board Secretary. Certain of the MTA's executives and a brief biography of each executive are provided below.

**Chief Executive Officer.** Roger Snoble was hired as the MTA's Chief Executive Officer in September 2001. Mr. Snoble had been president/executive director of the Dallas Area Rapid Transit District ("DART") since 1994. Prior to joining DART, he served as president and general manager of the San Diego Transit Corporation where he worked for 20 years. Mr. Snoble began his transportation career in 1965 as a planner for the TriCounty Regional Planning Commission in Akron, Ohio. He also worked as a planner for Akron Metro Transit District from 1971-1973.

**Deputy Chief Executive Officer.** John B. Catoe, Jr., was appointed Deputy Chief Executive Officer in October 2001. Mr. Catoe has 22 years of public transit experience as Director of Transit Services for the City of Santa Monica's Big Blue Bus and with the Orange County Transportation Authority, including five years as Director of Operations. Mr. Catoe received a Bachelor of Science in Business Administration from the University of Redlands.

**Chief Financial Officer.** Richard Brumbaugh was appointed Chief Financial Officer in December 1998. As Chief Financial Officer, he is responsible for the MTA's Support Service Group that consists of finance services, including budget, revenue, treasury, accounting, risk management, administration, information technology services, procurement and management audit. Mr. Brumbaugh has more than 25 years of experience in financial management. Before joining the MTA, Mr. Brumbaugh was Vice President, Finance and Chief Financial Officer of Santa Anita Operating Company. During his 24 years with the company, he also served as Controller, Assistant Controller and Financial Analyst. From 1979 to 1988, Mr. Brumbaugh also taught courses in corporate finance as an Assistant Professor of Finance at California State University, Los Angeles. Mr. Brumbaugh began his career in 1970 as an auditor with the Bank of America in Los Angeles. Mr. Brumbaugh earned a Bachelor of Science degree and Master of Science degree in Business Administration, Finance from California State University, Northridge.

**Executive Officer, Finance and Treasurer.** Terry Matsumoto was appointed Executive Officer, Finance for the MTA in October 1996. Subsequent to this appointment he served temporarily as Interim Deputy Chief Executive Officer for Finance and Administration for the MTA. Mr. Matsumoto assumed the position of Treasurer in April 1998. As Executive Officer, Finance and Treasurer he is responsible for the oversight of the MTA's debt, investment, pension and benefits and currency processing functions. He has also served as Executive Officer, Administration and Controller of the MTA and as Director of Strategic Funding Analysis for the MTA's Regional Transportation Planning and Development Division. Prior to joining the MTA, Mr. Matsumoto was the Controller with the Community Redevelopment Agency of the City of Los Angeles. His prior experience includes managing financial functions for Republic Geothermal, Inc., divisional finance and administration for Tetra Tech, Inc., in Arlington, Virginia, and auditing functions for Coopers & Lybrand. He is a Certified Public Accountant and holds a Bachelor of Arts in Economics and an MBA from the University of California, Los Angeles.

## **Public Transportation Services Corporation**

In December 1996, the MTA created the Public Transportation Services Corporation ("PTSC"), a nonprofit public benefit corporation organized under the laws of the State. PTSC was created in order to transfer certain functions, then performed by the MTA, and the employees related to those functions, to this new corporation. The purpose of PTSC is to conduct essential public transportation activities including but not limited to the following: (a) to coordinate multimodal multijurisdictional transportation planning; (b) to program federal, state and local funds for transportation projects county-wide within Los Angeles County; (c) to oversee construction; (d) to provide certain administrative services to the Los



Angeles County—Service Authority for Freeway Emergencies and the Southern California Regional Rail Authority; (e) to provide administrative support and security services for the foregoing and to the operation of the MTA's bus and rail system; and (f) such other activities and provide such other services as it deems necessary. One advantage of the PTSC is that it allows the employees of the corporation, including those transferred from the MTA, to participate in the California Public Employees Retirement System.

## **Rapid Transit System**

The MTA is a multi-faceted transportation agency responsible for the coordination of transportation policy, funding and planning within the County as well as the development and operation of bus, rail, highway and commuter rail within the greater Los Angeles region. This breadth of services distinguishes the MTA from other transportation agencies across the country. Most other transportation agencies specialize in three or fewer of the referenced transportation services.

**Bus System.** The MTA is the largest public transit operator west of Chicago. The MTA provides bus service within its service area in the County and to portions of Orange and Ventura Counties, operating a vehicle fleet of over 2,600 buses that operates a weekday total of 270,760 revenue service miles over a route system of 3,000 miles carrying approximately 1.2 million weekday boardings. In addition, the MTA contracts with outside service providers for an additional 174 buses that operate a weekday total of 20,600 revenue service miles over a route system of 338 miles carrying approximately 45,000 weekday boardings.

In order to improve service reliability and reduce maintenance costs, the MTA in October 1998 approved the purchase of 2,095 new CNG-powered buses over the next six years. As of April 2005, 1,988 new CNG-powered buses have been received and placed into service, which represents 75% of MTA's fleet. The MTA expects the remaining buses to be received and placed into service by December 2005. The purchase of additional new buses could also occur as a result of the Consent Decree. See "LITIGATION—Fare Increase Litigation."

**Metro Rapid Bus.** In June 2000, the MTA launched the Metro Rapid Bus demonstration project. In September 2002, based on the positive results of the demonstration project, the MTA Board adopted the Metro Rapid Five-Year Implementation Plan that identified the additional Metro Rapid Line corridors to be implemented through fiscal year 2008. Eleven of the 28 Metro Rapid corridors are now operating, representing approximately 175 miles in the City of Los Angeles, Los Angeles County and 15 other cities. Three new corridors are planned for implementation in fiscal year 2004-05, with the remaining 14 corridors scheduled for implementation by fiscal year 2007-08.

The Metro Rapid Buses have traffic signal priority and only stop at major intersections. Currently, 275 new CNG-powered buses serve 11 major corridors across Los Angeles County. Passenger travel times are approximately 25% faster than the underlying local service. In addition, ridership has increased from 5% to 30% in these corridors. The MTA must add 134 new buses to its Metro Rapid Bus fleet as a result of the Consent Decree. The MTA expects to have a plan in place for expanding its Metro Rapid Bus fleet by July 31, 2005. See "LITIGATION—Fare Increase Litigation."

**Metro Orange Line.** The Metro Orange Line (formerly known as the San Fernando Valley Metro Rapidway) is another project under construction by the MTA. The Metro Orange Line is to consist of buses operating in exclusive lanes within an approximate 13 mile stretch on MTA right-of-way and one mile of mixed flow operation on public streets. Thirteen stations, each located roughly one mile apart, will be completed for the Metro Orange Line. Park and ride facilities at six stations will provide more than 3,000 new parking spaces. The Design/Build contract for the project was awarded in January 2003,

with a projected opening for service in September 2005. The projected total cost for the Metro Orange Line is \$313.5 million. Approximately 80% of the projected total cost will be paid from local sources and approximately 20% will be paid from discretionary State and federal sources.

**Highway System.** The High Occupancy Vehicle (“HOV”) lane program is a cooperative effort between Caltrans and the MTA, and is funded through a combination of federal, state and local resources. There are currently 429 lane miles of HOV lanes on Los Angeles freeways. As reported by Caltrans on a preliminary basis, as of July 2004, the HOV lanes carried an average volume of 306,000 vehicles and over 696,000 people per day. The MTA has completed a comprehensive HOV Performance Program which fully documents the user and regional mobility benefits of HOV investments. Freeways were analyzed to determine the best and most cost-effective way to use HOV lanes with other transit services. At its regular meeting in September 2001, the Board adopted a set of principles to provide policy guidance on the future directions of HOV lanes and ensure cost efficient and effective investments.

## **Rail System**

**General.** In 1992, the Commission developed a comprehensive rail rapid transit system development plan (the “Rail System”) which has been revised from time to time. The Rail System currently consists of the Metro Blue Line, the Metro Green Line, the Pasadena Gold Line, and MOS-1, MOS-2 and MOS-3 (North Hollywood) of the Metro Red Line.

**Metro Blue Line.** The Metro Blue Line was designed as a modern, state-of-the-art light rail transit line, which extends approximately 22 miles from downtown Los Angeles (where it links to the Metro Red Line) to the City of Long Beach. The Metro Blue Line passes through portions of the cities of Los Angeles, Long Beach, Compton, Carson and other cities, and certain unincorporated areas of the County. A portion of the Metro Blue Line utilizes a reserved, but not necessarily grade-separated, right-of-way on which electrically powered vehicles, drawing current from overhead wire, operate singly or in trains. Passenger service began in July 1990. Ridership currently averages approximately 74,000 per average weekday, which exceeds initial projections.

The Metro Blue Line consists of a dual-track line with 22 stations, with a fleet of 54 articulated rail cars and a primary maintenance facility and yard located in Long Beach adjacent to the Long Beach Freeway with a storage and maintenance capacity of 89 vehicles. Due to the level of ridership, the platforms of 19 of the 22 stations were expanded in order to permit longer train sets. The \$14.5 million station platform expansion project was completed in Summer 2001. The vehicle maintenance facility supports vehicles from both the Metro Blue Line and the Metro Green Line. Fares are collected through self-service, barrier-free fare collection machines. Total travel time between the terminal points of the Metro Blue Line is approximately 58 minutes.

The Metro Blue Line project budget was \$877 million, all of which was paid with local Proposition A (as defined herein) funds. The total cost of constructing the Metro Blue Line was within budget.

**Metro Green Line.** The Metro Green Line is a 19.5-mile light rail line linking the El Segundo employment area near the Los Angeles International Airport to the City of Norwalk near the San Gabriel River Freeway. The Green Line has fourteen stations including a station that intersects the Metro Blue Line and one that provides passenger connections to the Harbor Freeway Transitway, an elevated busway developed by the California Department of Transportation (“Caltrans”). Travel time between the terminal points of the Metro Green Line is approximately 35 minutes. The Metro Green Line began operations in August 1995 and currently carries approximately 31,000 riders daily.

The Metro Green Line Project budget was \$712.3 million and the project was completed within the budget. The overall project costs have been paid primarily from Proposition A and C sales tax revenues. The project has also received approximately \$100 million of moneys contributed from the MTA's portion of the \$1 billion Proposition 108 and 116 State rail bonds approved by the voters of the State in June of 1990.

***Pasadena Gold Line.*** The Pasadena Gold Line is a 13.7-mile light rail line which extends from downtown Los Angeles (where it links to the Metro Red Line) to the City of Pasadena. The Gold Line consists of a dual-track line with 13 stations. Travel time between the terminal points of the Gold Line is approximately 35 minutes. The Gold Line began operations in July 2003 and currently carries approximately 15,000 riders daily.

The Gold Line project budget was \$725 million, \$451 million of which was funded by the Pasadena Metro Blue Line Construction Authority (the "PMBLCA") and \$274 million of which was funded by MTA. Project costs were paid primarily from State grants and Proposition C sales tax revenues.

***Metro Red Line.*** The Metro Red Line was designed as a state-of-the-art, modern heavy rail line comparable to transit systems in San Francisco, Atlanta and Washington, D.C. The Metro Red Line is a dual-rail steel-wheeled, high speed rapid subway system that originally was to consist of a 19.7 mile 18-station line that was to connect the Los Angeles central business district to the San Fernando Valley, through the Wilshire Corridor and Hollywood, and to East Los Angeles through Union Station. However, due to the Act of 1998 and federal and state funding shortfalls, the development of the Metro Red Line has been drastically reduced, including the indefinite suspension of certain of the extensions. The Act of 1998 prohibits the MTA from utilizing any of the Proposition A Sales Tax or the Proposition C Sales Tax for the costs of planning, design, construction or operation of any New Subway, including debt service on any obligations issued for such purposes after March 30, 1998. However, the MTA is not precluded from continuing the construction of the Metro Red Line as long as such design, construction and operation are paid from funds other than Proposition A Sales Tax and Proposition C Sales Tax.

The initial 4.4-mile segment of the Metro Red Line, also known as MOS-1, extends from Union Station to Alvarado Street in the downtown section of the City of Los Angeles, with five stations located along the line. MOS-1 began operating in January 1993. The total cost of constructing MOS-1 was \$1.45 billion. Funding of MOS-1 was derived from local, state and federal funds, including Proposition A sales tax revenues. In addition to constructing the rail line, the total cost of MOS-1 included the purchase of passenger vehicles, fare collection equipment, automatic train control equipment, the yards and shops required for the full construction of the Metro Red Line alignment.

The second segment of the Metro Red Line, also known as MOS-2, is 6.8-miles long with eight stations extending west from Alvarado Street to Vermont Avenue where it branches north and west. The west branch continues west under Wilshire Boulevard to Western Avenue. The west branch became operational in July 1996. The north branch turns up Vermont Avenue and travels through Hollywood to Hollywood Boulevard and Vine Street. The north branch opened for service in June 1999. As of May 2004, \$1.78 billion had been spent on MOS-2. Funding for MOS-2 was derived from local, state and federal funds, including Proposition A sales tax revenues.

The third segment of the Metro Red Line, also known as MOS-3, was originally designed to consist of the north and west extensions from MOS-2 and an east extension from the Union Station of MOS-1. As a result of the passage of the Act of 1998, funding shortfalls and the internal guidelines adopted by the Board, only the north extension was completed. At this time the western extension has been indefinitely suspended. The eastside extension has been reengineered as a light rail line. See "Rail

System—East Side Light Rail” below. The north extension runs west and north from the MOS-2 Hollywood and Vine station to a North Hollywood station with two intermediate stops. The budget for the North Hollywood segment is \$1.314 billion with \$1.29 billion expended as of May 2004. Funding for MOS-3 was derived from state and local sources, including Proposition A and Proposition C sales tax revenues, and federal Section 5309 and 5307 funds. This final segment of the subway opened in June 2000.

The ridership estimate for the entire Metro Red Line is currently 116,000 daily. The Metro Red Line is serviced by a main storage yard and maintenance facility located near the Los Angeles River at the eastern terminus of the line. As currently planned, primary passenger access to the Metro Red Line will be provided from other rail projects and from the MTA’s extensive bus network which is proposed to be expanded and will include bus terminals at Metro Red Line stations, park-and-ride facilities and passenger drop-off areas.

***Gold Line East Side Extension.*** The MTA is currently in the process of constructing the Gold Line Eastside Extension Project. See “THE PROJECT.” Projected to open in December of 2009, the Project will be a six-mile, dual-track light rail system with eight new stations and one station modification. The system will originate at Union Station in downtown Los Angeles, where it will connect with the Pasadena Gold Line, traveling generally east to Pomona and Atlantic Boulevards through one of the most densely populated areas of Los Angeles County. The total estimated cost for the Project is \$898.8 million. In June 2004, the FTA approved \$490.7 million in federal funding for the Project. See “THE GRANT AGREEMENT.” The remaining Project costs will be paid from a variety of local, State and other federal funding sources.

***Exposition Light Rail Transit Project.*** The Exposition Light Rail Transit Project is a light rail project under development by the MTA. The Exposition Line will be a 9.6-mile light rail transit line from downtown Los Angeles to Robertson Boulevard in Culver City. In April 2005, the MTA Board approved a full funding plan for the Project, not to exceed \$640 million. Pursuant to the full funding plan, approximately 40% of the projected total costs will be paid from federal and State sources and approximately 60% will be paid from local sources. Preliminary engineering for the Project has commenced.

***Commuter Rail.*** The MTA initiated, with the active participation of five surrounding counties (Riverside, Ventura, Orange, San Bernardino and San Diego), joint planning, project development and procurement activities related to the initiation of new commuter rail services. Such services from multiple corridors, principally into Los Angeles Union Passenger Terminal, currently operate on existing rights-of-way for which the purchase and operating rights were acquired. The commuter rail initiative is principally geared toward providing better commuter rail service from outlying communities to downtown Los Angeles.

In July 1991, the Southern California Regional Rail Authority (“SCRRA”) was created to oversee commuter rail services in the region. The MTA is the Los Angeles County participant in the SCRRA. Other participants include the Orange County Transportation Authority, the Riverside County Transportation Commission, the San Bernardino Association of Governments and the Ventura County Transportation Authority.

On October 26, 1992, SCRRA opened the first three Commuter Rail (Metrolink) lines to downtown Los Angeles initiating commuter rail service for the first time ever in the County. Service is being provided between Los Angeles and Lancaster in the County, Oxnard in Ventura County, San Bernardino in San Bernardino County, Riverside in Riverside County, San Clemente in Orange County, and Oceanside in San Diego County. Metrolink also provides service between Riverside in Riverside

County and San Juan Capistrano in Orange County. Currently, the Metrolink system consists of 7 lines totaling 512 miles and 53 stations serving approximately 37,000 weekday commuters daily. These facilities were constructed within their project budgets and time specifications.

### **Future Transportation Improvements**

The MTA, as the State-designated planning and programming agency for Los Angeles County (the “County”), identifies future transportation needs and transportation funding and construction priorities in the County. The MTA prepares both a Long Range Transportation Plan and a Short Range Transportation Plan that identify the costs of major transportation projects and the anticipated funding sources.

***Long Range Transportation Plan.*** The MTA Board adopted the 2001 Long Range Transportation Plan (“LRTP”) on April 26, 2001. This LRTP superseded the previous plan that was adopted on March 22, 1995 and amended in 1996. The LRTP identifies the transportation needs and challenges that the County may experience through 2025. The LRTP is the blueprint for implementing transportation improvements needed for County’s transportation system, including highway, arterial, transit (bus, rail and commuter rail), bicycle, pedestrian, rideshare and transportation demand management projects and programs. A basic premise of the LRTP is that the County residents will use public transportation if it is safe, convenient, clean, on time and affordable. The MTA intends to make sure that the County transportation system achieves these objectives. The goal of the LRTP is to develop a multimodal system that better serves the needs of transit dependent riders, while also providing a network that will attract solo drivers out of their cars, primarily through faster transit speeds, improved quality of service and more commuter choices. The LRTP identifies major transportation projects that have priority for future funding and construction and funding for the “Call for Projects” process. The LRTP also includes a strategic plan of projects that are regionally significant and should be considered for implementation if additional funding becomes available.

***Short Range Transportation Plan.*** The MTA Board approved the 2003 Short Range Transportation Plan (“SRTP”) in August 2003. The SRTP is a focused, near-term action plan that advances the long-term goals outlined in the LRTP, and identifies specific transportation projects and funding sources through 2009. Among the items funded in the SRTP are: bus and rail vehicle purchases; the expansion of the Metro Rapid bus program; construction of the Gold Line Eastside Extension and Metro Orange Line; preliminary engineering for the Exposition Light Rail Transit Project, rail system rehabilitation and replacement costs; and the addition of 70 miles of car pool lanes. MTA Board actions subsequent to the approval of the SRTP have accelerated the completion date and funding of several projects identified in the SRTP, including the Exposition Light Rail Transit Project and car pool lanes on portions of Interstate 5.

### **Labor Relations**

Approximately 4,600 full- and part-time MTA bus and train operators are represented by the United Transportation Union (“UTU”), while over 2,000 MTA mechanics and service attendants are members of the Amalgamated Transit Union (“ATU”). Approximately 660 MTA clerks are members of the Transportation Communications Union (“TCU”), approximately 500 bus and rail transportation and maintenance supervisors are members of the American Federation of State, County and Municipal Employees (“AFSCME”), and approximately 80 MTA security guards are members of the Teamsters Union. The following table summarizes the number of employees covered by, and the expiration dates of, the labor agreements of the MTA with each of its employee bargaining units as of June 1, 2005.

<b><u>Employee Bargaining Unit</u></b>	<b><u>Approximate Number of Employees</u></b>	<b><u>Contract Expiration Date</u></b>
United Transportation Union	4,597	06/30/06
Amalgamated Transit Union	2,013	06/30/06
Transportation Communications Union	659	06/30/06
American Federation of State, County and Municipal Employees	538	06/30/08
Teamsters Union	77	09/30/06

On September 16, 2000, the UTU went on strike, and some members of the TCU, ATU and AFSCME honored the picket lines. During that period, there was a significant reduction in transit service, though the MTA was able to provide substitute service for a limited portion of its transit riders through contracted services and other operators. After 32 days, the MTA and the striking union members approved a new labor agreement for the next three years. In the new agreement, the MTA agreed to an 8.3% pay increase over the three-year term and to increase its contributions to the workers' retirement program by 1%. In exchange, the union members agreed to changes to work rules that allow the MTA to continue to expand transit service and achieve productivity improvements. Subsequently, agreement was reached with the TCU for a 36-month term and the ATU for a 27-month term. The new contracts with the members of the UTU, the maintenance workers' ATU and the clerks' TCU were executed in February 2001.

The ATU contract expired on September 30, 2002, but was extended by the ATU until January 15, 2003. The UTU and TCU contracts expired on June 30, 2003, while the Teamsters contract expired on September 30, 2003. On July 21, 2003, the Superior Court ordered a 60-day injunction enjoining members of the UTU from, inter alia, striking or engaging in any work stoppage or slowdown. During this "cooling off period," the MTA was also enjoined from locking out MTA employees. In August 2003, a similar injunction was issued for the ATU enjoining both ATU and the MTA from engaging in any work stoppage, slowdown or lock-out activities.

On October 14, 2003, the ATU went on strike and some members of the UTU, TCU and AFSCME honored the picket lines. As in 2000, the MTA was able to provide substitute service for a limited portion of its transit riders through contracted service and other operators. The work stoppage ended after 35 days when a labor agreement was reached with the ATU. Terms of the agreement called for a 7% wage increase over the three-year and nine month term. As part of the agreement, the medical benefit amount was to be determined in mediation and, if necessary, non-binding arbitration. The non-binding arbitration was concluded in June 2004 and both ATU and MTA agreed to the arbitration panel's decision, which provided for modest increases in health and welfare benefits and greater MTA involvement in the management and administration of such benefits. The UTU reached agreement with the MTA in December 2003 and the new contract was ratified by the MTA in January 2004. A new three-year contract with the Teamsters was signed in April 2004. The agreement calls for a 5% wage increase and increases in other benefits over the contract that expires on September 30, 2006. Negotiations with the TCU are continuing.

The MTA does not anticipate any material adverse financial or operating consequences as a result of any strike or the execution of its new labor agreements.

## **SPECIAL INVESTMENT CONSIDERATIONS**

### **Limited Obligations**

**The Bonds are limited obligations of the MTA payable solely from and secured solely by Grant Receipts (as herein defined), amounts on deposit in the funds and accounts established under the Indenture (except the Rebate Fund), and investment earnings thereon. The Bonds are not a general obligation of the MTA and the revenues of the MTA (other than as described above) are not pledged for the payment of the Bonds or the interest thereon. The Bonds are not an indebtedness or obligation of the State or any political subdivision of the State (other than the MTA) or of any municipality within the State.**

### **Uncertainties in Federal Funding**

There can be no assurance that sufficient Grant Receipts will be received by the MTA to pay the debt service on the Bonds. The amount of Grant Receipts available to the MTA for the Project is subject to annual appropriation by Congress and to approval on an annual basis by the FTA. As such, the MTA competes for such funds with other transit funding priorities. The Grant Agreement specifically provides that the eligibility of the MTA for funds does not create an obligation on the part of the United States to provide funds for the Project. If sufficient funds are not so available, sufficient Grant Receipts will not be received to pay the debt service on the Bonds. See “THE GRANT AGREEMENT” and “FEDERAL TRANSIT PROGRAM.”

### **Construction Risk**

Construction of the Project has not yet been completed, and as with any major construction effort, the completion of the Project involves many risks, including shortages of materials and labor, work stoppages, labor disputes, weather interferences, unforeseen engineering, environmental or geological problems, seismic events, power outages, and unanticipated cost overruns in excess of contingencies, any of which could increase the cost or delay the construction of the Project. There can be no assurance that the Project will be completed on the timetable projected by the MTA or within the budget and other assumptions used by the MTA. In the Grant Agreement, the MTA has covenanted to pay for any Project budget shortfall out of its own funding sources. See “THE GRANT AGREEMENT—Noncompliance.”

### **Limitations on Remedies of Bondholders**

The remedies available upon an event of default under the Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified as to the enforceability of the various documents by bankruptcy, insolvency or other similar laws affecting the rights of creditors generally.

### **Bonds Subject to Redemption Prior to Maturity**

The maturities of the Bonds have been structured on the basis of certain assumptions as to the amount and timing of the receipt of Grant Receipts by the MTA including an assumption that there will be a delay in the receipt of Grant Receipts. If Grant Receipts are received by the MTA in the amounts and at the times anticipated, all or a portion of the Bonds will be redeemed prior to maturity at a redemption price equal to the principal amount thereof without penalty. See “SECURITY FOR THE BONDS—Anticipated Grant Receipts” and “THE BONDS—Redemption Prior to Maturity.”

## **No Acceleration Provision**

The Indenture does not contain a provision allowing for the acceleration of the Bonds in the event of a default in the payment of principal and interest on the Bonds when due. In the event of a default under the Indenture, each Bondholder will have the right to exercise the remedies provided in the Indenture, subject to the rights of the Bond Insurer. See “APPENDIX B—SUMMARY OF THE INDENTURE—Events of Default and Remedies.”

## **Loss of Federal Tax Exemption**

Interest on the Bonds could become includable in federal gross income, possibly from the date of issuance of the Bonds, as a result of acts or omissions of the MTA subsequent to the issuance of the Bonds. Should interest become includable in federal gross income, the Bonds are not subject to redemption by reason thereof and will remain outstanding until maturity or earlier redemption.

## **LEGAL MATTERS**

Legal matters incident to the issuance of the Bonds are subject to the approving opinion of Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel. The proposed form of the opinion to be delivered by Bond Counsel is attached hereto as Appendix F. Approval of certain other legal matters will be passed upon for the MTA by the Los Angeles County Counsel, and for the Underwriters by Nixon Peabody LLP, New York, New York, Underwriters’ Counsel.

## **TAX MATTERS**

The Internal Revenue Code of 1986 (the “Code”) imposes certain requirements that must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Bonds to be included in the gross income of the owners thereof for federal income tax purposes retroactive to the date of issuance of the Bonds. The MTA has covenanted to maintain the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes.

In the opinion of Fulbright & Jaworski L.L.P., Bond Counsel, under existing law, interest on the Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the aforementioned covenant, interest on the Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Bond Counsel is also of the opinion that, assuming compliance with the aforementioned covenant, the Bonds are not “specified private activity bonds” within the meaning of section 57(a)(5) of the Code and, therefore, the interest on the Bonds will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code. The receipt or accrual of interest on the Bonds owned by a corporation may affect the computation of its alternative minimum taxable income, upon which the alternative minimum tax is imposed, to the extent that such interest is taken into account in determining the adjusted current earnings of that corporation (75 percent of the excess, if any, of such adjusted current earnings over the alternative minimum taxable income being an adjustment to alternative minimum taxable income (determined without regard to such adjustment or to the alternative tax net operating loss deduction)).

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the Bonds may affect the tax status of interest on the Bonds or the tax consequences of the ownership of the Bonds. No assurance can be given that future legislation, or amendments to the Code, if



enacted into law, will not contain provisions that could directly or indirectly reduce the benefit of the exemption of interest on the Bonds from personal income taxation by the State of California or of the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes. Furthermore, Bond Counsel expresses no opinion as to any federal, state or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof predicated or permitted upon the advice or approval of bond counsel if such advice or approval is given by counsel other than Bond Counsel.

Although Bond Counsel is of the opinion that interest on the Bonds is exempt from state personal income tax and excluded from the gross income of the owners thereof for federal income tax purposes, an owner's federal, state or local tax liability may be otherwise affected by the ownership or disposition of the Bonds. The nature and extent of these other tax consequences will depend upon the owner's other items of income or deduction. Without limiting the generality of the foregoing, prospective purchasers of the Bonds should be aware that (a) section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds or, in the case of a financial institution, that portion of an owner's interest expense allocated to interest on the Bonds, (b) with respect to insurance companies subject to the tax imposed by section 831 of the Code, section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15% of the sum of certain items, including interest on the Bonds, (c) interest on the Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by section 884 of the Code, (d) passive investment income, including interest on the Bonds, may be subject to federal income taxation under section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income, (e) section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, receipts or accruals of interest on the Bonds and (f) under section 32(i) of the Code, receipt of investment income, including interest on the Bonds, may disqualify the recipient thereof from obtaining the earned income credit. Bond Counsel has expressed no opinion regarding any such other tax consequences.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the MTA described above. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the Service is likely to treat the MTA as the "taxpayer," and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the MTA may have different or conflicting interest from the owners of the Bonds. Further, the disclosure of the initiation of an audit may adversely affect the market price of the Bonds, regardless of the final disposition of the audit.

## LITIGATION

Except as stated herein, there is no litigation pending or, to the knowledge of the MTA, threatened in any way questioning or affecting the validity of the Bonds, or the receipt or pledge of the Grant Receipts.

### Sales Tax Litigation

On April 30, 1982, the California Supreme Court, in *Los Angeles County Transportation Commission v. Richmond*, upheld the constitutionality of the Proposition A Sales Tax. On March 3, 1992, the California Court of Appeal, in *Vernon v. State Board of Equalization*, upheld the validity of the

Proposition C Sales Tax. On September 28, 1995, the California Supreme Court affirmed the California Court of Appeal's ruling in *Santa Clara County Local Transportation Authority v. Guardino*, which invalidated a half-cent sales tax by the Santa Clara County Local Transportation Authority. The MTA does not believe such decision has any effect on the validity of the MTA's Proposition A Sales Tax.

### **Fare Increase Litigation**

On August 31, 1994, the Labor/Community Strategy Center, Bus Riders Union, Southern Christian Leadership Conference of Greater Los Angeles County, Korean Immigrant Workers Advocates and several individuals represented by the NAACP Legal Defense and Educational Funds, Inc. (the "Class Action Plaintiffs") filed a civil rights class action complaint in the United States District Court for the Central District of California (Case No. CA-94-5936 TJH (MCx)) (the "Complaint"). The Complaint named the MTA and then Chief Executive Officer, Franklin E. White, as defendants, and alleged various discriminatory practices by the MTA and its predecessor agencies in providing transportation services in the County.

In the Complaint, the Class Action Plaintiffs sought to enjoin the MTA from implementing a new fare structure in late 1994 which, among other things, would have increased bus fares from \$1.10 to \$1.35 and eliminated the regular monthly bus passes.

On October 28, 1996, Judge Terry Hatter approved a Consent Decree (the "Consent Decree") reached between the MTA and the Class Action Plaintiffs. The Consent Decree provides for the MTA to: (i) agree to reduce its load factor (i.e., the number of people who stand on the bus) to certain targets, (ii) expand bus service improvements by making available a net of 102 additional buses by June 1997, (iii) implement a Five Year New Service Plan to facilitate access to County-wide jobs, education and health centers, (iv) not increase base bus fares for two years and pass fares for three years beginning December 1, 1996, after which the MTA is permitted to raise fares subject to certain conditions of the Consent Decree and (v) introduce a weekly pass and an off-peak discount fare on selected lines. The MTA is also obligated to create a joint working group with representatives from the plaintiffs' class and the MTA to implement the Consent Decree. A Special Master was appointed to oversee compliance. The portion of the Consent Decree which placed restrictions on fare increases has now expired.

The parties continue to be in disagreement over the proper interpretation of the portion of the Consent Decree that sets load factor targets. The Special Master has recently ordered additional bus service and bus purchases, and the MTA has identified sources of revenue to fund full implementation. In addition, pursuant to the Consent Decree the Class Action Plaintiffs and the MTA submitted separate Five Year New Service Plans to the Special Master on December 31, 1998. The parties' proposals are vastly different and the Special Master recommended that the parties attempt to resolve their differences. No resolution has occurred and the five years for the New Service Plan have expired.

On April 14, 2005, the Special Master issued an order requiring the MTA to add 134 new buses to its Metro Rapid Bus fleet (the "Order"). See "THE LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY—Rapid Transit System." The Order requires the MTA to pay for the new buses using funds currently designated for transit services that fall outside the Consent Decree. Under the Order, the MTA is only allowed to recoup one-third of the cost of the new buses by reducing regular local bus service along the Metro Rapid corridors. The MTA must develop a plan to implement the Order by July 31, 2005.

As part of any funding plan for further services, including the plan required by the Order, the MTA could order fare increases and/or issue additional debt secured by either the Proposition A Sales Tax and/or Proposition C Sales Tax. At this time, the MTA has not decided on the best method of

financing the additional buses required by the Order, or any future additional requirements for additional bus service, and will not be able to do so until the full extent of any additional obligation is finally determined.

The U.S. District Court has retained jurisdiction over this litigation for ten years (beginning in October 1996) in order to monitor compliance with the Consent Decree.

### **Construction Litigation**

The MTA is involved in litigation with its former insurance carrier, Argonaut Insurance Company. Argonaut contends that additional deductibles are owed by MTA for third party claims paid for damages related to Metro Red Line construction. The MTA has filed a cross-complaint for bad faith. The MTA believes it has budgeted sufficient reserves to cover any possible adverse judgment in the case.

The Tutor-Saliba-Perini (“TSP”) litigation arose from contract claims submitted by TSP to the MTA claiming extra charges under Redline Segment 2 contracts. The MTA cross-complained for violation of the California False Claims Act and for breaches of contract. The trial on the complaint and cross-complaint concluded in August 2001, with a judgment for the MTA, which judgment was reversed in January 2005. The matter will be retried either in late 2005, or in the first half of 2006.

### **Other Litigation**

In addition to the matters herein discussed, various other claims have been asserted against the MTA. In the opinion of the MTA, none of the pending claims will materially and adversely affect the MTA’s ability to pay the principal of and interest on any of its obligations, including the Series 2005 Bonds.

## **RATINGS**

Moody’s Investors Service (“Moody’s”) and Standard & Poor’s Ratings Service, a division of The McGraw Hill Companies (“S&P”), have assigned their municipal bond ratings of “Aaa” and “AAA,” respectively, to the Bonds with the understanding that upon delivery of the Bonds, a policy insuring payment when due of principal of and interest on the Bonds will be issued by \_\_\_\_\_. Moody’s and S&P have also assigned the Bonds the underlying ratings of “\_\_\_” and “\_\_\_,” respectively. There is no assurance that any credit ratings given to the Bonds will be maintained for any period of time or that the ratings may not be lowered or withdrawn entirely by such rating agencies, if, in their judgment, circumstances so warrant. The MTA does not undertake any responsibility to oppose any downward revision or withdrawal of rating. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds. Such ratings reflect only the views of such organizations and an explanation of the significance of such ratings may be obtained from such rating agencies.

## **FINANCIAL ADVISOR**

Public Financial Management, Inc. has served as Financial Advisor to the MTA in connection with the issuance of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. Public Financial Management, Inc. is an independent financial advisory firm and is not engaged in the business of underwriting municipal bonds or other securities.

## CONTINUING DISCLOSURE

In order to enable the Underwriters to comply with the requirements of Rule 15c2-12 promulgated by the Securities and Exchange Commission (the “Rule”), the MTA will enter into a Continuing Disclosure Agreement with the Trustee for the benefit of the Beneficial Owners (as defined in such agreement) from time to time of the Bonds. The MTA has complied in all material respects with its previous undertakings under the Rule for the past five years. See “APPENDIX D—FORM OF CONTINUING DISCLOSURE AGREEMENT.”

## UNDERWRITING

The Bonds are being purchased by the Underwriters listed on the front cover of this Official Statement (the “Underwriters”). The Underwriters will purchase the Bonds at a purchase price of \$\_\_\_\_\_ (representing the principal amount of the Bonds, less an underwriters’ discount of \$\_\_\_\_\_, plus original issue premium of \$\_\_\_\_\_).

The initial public offering prices of the Bonds may be changed from time to time by the Underwriters. The bond purchase contract relating to the Bonds (the “Purchase Contract”) provides that the Underwriters will purchase all the Bonds if any are purchased and that the obligations to make such purchases are subject to certain terms and conditions set forth in the Purchase Contract including, among others, the approval of certain legal matters by their counsel.

## MISCELLANEOUS

This Official Statement is not to be construed as a contract or agreement between the MTA and the purchasers, holders or beneficial owners of any of the Bonds. All of the summaries of the Bonds, the Indenture, the Grant Agreement, applicable legislation and other agreements and documents in this Official Statement are made subject to the provisions of the Bonds and such documents, respectively, and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the MTA for further information in connection therewith.

Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

The execution and delivery of this Official Statement by the Chief Executive Officer of the MTA has been duly authorized by the MTA.

LOS ANGELES COUNTY METROPOLITAN  
TRANSPORTATION AUTHORITY

By \_\_\_\_\_  
Chief Executive Officer

**APPENDIX A**  
**THE GRANT AGREEMENT**

**APPENDIX B**  
**SUMMARY OF THE INDENTURE**

**APPENDIX C**  
**ARS PROVISIONS**

**APPENDIX D**

**FORM OF CONTINUING DISCLOSURE AGREEMENT**

[TO COME]



## APPENDIX E

### DTC AND THE BOOK-ENTRY ONLY SYSTEM

*The information in this Appendix E concerning The Depository Trust Company, New York, New York, and DTC's book entry system has been obtained from DTC and the MTA takes no responsibility for the completeness or accuracy thereof. The MTA cannot and does not give any assurances that DTC, Direct Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, Direct Participants or Indirect Participants will act in the manner described in this Appendix E. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with Direct Participants are on file with DTC.*

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Bond will be issued for the Bonds, in the aggregate principal amount of the Bonds, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic, computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation ("NSCC," "GSCC," "MBSCC" and "EMCC," also subsidiaries of DTCC), as well as the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (a "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmation providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the

Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry only system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the MTA as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified by a listing attached to the Omnibus Proxy).

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the MTA or the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, its nominee, the Trustee or the MTA, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the MTA or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursements of such payments to Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the MTA or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The MTA may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the MTA believes to be reliable, but the MTA does not guarantee the accuracy thereof.

**SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE OWNERS OR HOLDERS OF THE BONDS (OTHER**

THAN UNDER THE CAPTIONS “TAX EXEMPTION” AND “CONTINUING DISCLOSURE” IN THIS OFFICIAL STATEMENT) SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

**APPENDIX F**

**PROPOSED FORM OF OPINION OF BOND COUNSEL**

[Date of Issuance]

Los Angeles County Metropolitan Transportation Authority  
One Gateway Plaza  
Los Angeles, California 90012-2932

[TO COME]

**APPENDIX G**

**SPECIMEN MUNICIPAL BOND INSURANCE POLICY**